The Walt Disney Company

1996 Annual Report

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Financial Highlights

(In millions of dollars, except for per share data)	1996	1995	Change
Revenues	$18,739	$12,151	54%
Operating income[(1)]	3,333	2,466	35%
Net income[(1)(2)]	1,534	1,380	11%
Earnings per share[(1)(2)]	2.48	2.60	(5%)
Cash flow from operations	4,625	3,510	32%
Stockholders' equity	16,086	6,651	142%
Book value per share	23.87	12.68	88%

[(1)]The 1996 amounts exclude the impact of the SFAS 121 accounting change ($300)
[(2)]The 1996 amounts exclude the impact of acquisition-related costs ($225)

To Disney Owners and Fellow Employees:

MICHAEL D. EISNER
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Last week I was trying to write this letter in the living room of my family's farmhouse in Saxtons River, Vermont, where I have been going for the Thanksgiving holidays for 35 years. At my side was the cover of the annual report with its hundred and one dalmatians staring at me, begging me to begin. But I was stuck. The Florida/Florida State football game, broadcast on ABC, was in the background and I found myself looking up every time I saw a McDonald's/dalmatians commercial. Cute dalmatians everywhere, each one saying, "Get to work." But then there was this overwhelmingly positive review from a Boston television station for our movie *The English Patient* that I had to listen to, and of course I had to take a call from Florida reporting excellent attendance at Walt Disney World. I then called our European headquarters to learn that *The Hunchback of Notre Dame* opened with extraordinary results in 12 territories, including France, Germany, Belgium, Switzerland and Holland. This motivated

me to make more calls: dialing, still not typing. I found out *The Rock* would likely become the biggest home video rental of all time and that *Toy Story's* video release was selling at superb rates. Finally I got the call that unlocked my procrastination. *101 Dalmatians* was a smash. It would break every possible record at the box office for the Thanksgiving break. It was huge, massive! Now, as soon as the Mighty Ducks hockey game against the Chicago Blackhawks at the Pond in Anaheim on ESPN was over, I would finally begin to work. We wouldn't have to change the cover of our annual report. The *Dalmatians* had come through!

As I started to write, I thought about how thankful I was for not only Disney's good fortune, but for the continuity of the gathering of my family and the sense of support I get from it. At the same time, I am aware that nothing stays the same. The joy of welcoming new members into our family, by birth and by marriage, is offset by losses. This summer, my mother and mother-in-law passed away. Jane, my wife, and I feel the losses keenly. And perhaps that is why I find myself in a more reflective mood than usual.

I have thought a great deal about Disney's future in recent years. It has been more than three years since I walked into the late Frank Wells' office and said to him, "We really have to start thinking about reinventing Disney—again." The last two companies I worked for, ABC in the '60s and early '70s and Paramount in the '70s and early '80s, had become number one in their respective industries, only to begin to stagnate after a decade of success. Some executives grew complacent and self-satisfied. Talking about past successes replaced original thinking and risk-taking. I had found over my career that managing your way out of failure is often easier than managing sustained success. I wanted to get control of the seven-year itch before it became a rash — I wanted to be decisive. I wanted to give specific direction to our employees.

It was like a parenting conversation. You know (kind of) what your children should do, (kind of) the direction they should go, and how to (kind of) explain new math. But you have to do it with authority and confidence. I knew it was time to move executives around, in order to re-excite them about their work and their lives. I knew we would have to change the company, take some chances, enter new businesses, even make outside acquisitions. I also knew that we would have to continue to nurture and protect the Disney brand and to reaffirm core values such as our commitment to quality and service, which had made us so successful in the first place. And I knew that reinvention represented a delicate balancing act. After a lot of talk, I finally suggested to Frank that we should write a book. By doing so we would document what we were doing and place discipline and a timetable behind it. I just knew that I would be most effective with a deadline to meet, a hurdle to jump. A book would provide both.

Frank died a year into the book. We never expected the reinvention to take a tragic step. But it did. I have continued writing the book, now in its third year and finally reaching completion. It has evolved, but basically it is still subtly about change. It is about creating change before change creates you. Writing the book has prompted me not only to look forward, at new opportunities and challenges, but backward — both at the remarkable company that Walt built and the lessons I learned during the two decades I spent at ABC and Paramount and my first decade at Disney. Those reflections have helped in planning where The Walt Disney Company should go in the future.

Over the last decade the Disney Company has grown 610 percent, and almost half of that growth has come from businesses that did not exist in 1985. This year we closed the acquisition of Capital Cities/ABC, which further adds to the size and breadth of the company.

The list of businesses that are new to Disney since 1984 includes:

- international film distribution;
- television broadcasting;
- television station ownership;
- expanded ownership of cable systems;
- radio and radio network broadcasting;
- ownership of radio stations;
- newspaper, magazine and book publishing;
- The Disney Stores;
- the convention business;
- live theatrical entertainment;
- home video production;
- interactive computer programs and games;
- on-line computer programs;
- sites on the worldwide web;
- ownership of professional sports teams;
- telephone company partnership (Americast) to produce and provide programming for distribution over home telephone lines; and coming over the next 12 to 18 months,
- Disney Regional Entertainment, which will include a variety of new Disney entertainment and education ventures at locations around the country and the world; and
- Disney Cruise Line.

We have had a staff lunch every Monday for the last 12 years. This is the place where we talk about our achievements, agonize over our failures and plot our future. It is pretty much a free-for-all where anything can be said and no feelings should be hurt. It is here where our company creates synergy, and now with the acquisition of ABC, the avenues of additional cross-pollination are awesome. For every ten bad ideas, there is one good one; and for every ten good ones, there is one that is practical. And if we get one practical good idea every fourth lunch, we will grow and change the company. I don't think a business school could teach this kind of management. It's a little loose. But it works for us. So we'll keep it.

The experience of accomplishment or quiet appreciation (who am I kidding? I never stop talking about it) really struck home for me during the kick-off of Walt Disney World's 25th anniversary and celebration, which continues throughout 1997. During a round of openings and dedication ceremonies in which I traveled around our giant Florida property, I was suddenly aware of how much the resort has grown and changed since I first joined Disney in 1984.

In 1971, the year the Magic Kingdom opened, Walt Disney World consisted of one theme park and a total of 1,808 hotel rooms on property.

By the time I came aboard a dozen years ago, there were two theme parks, 6,373 rooms on property, one small water park and 26,000 square feet of convention space.

The Walt Disney World I visit today has three theme parks, 23,421 rooms on property, two very large water parks in addition to the original, two nighttime entertainment centers and two vacation club complexes. It also has 234,000 square feet of convention space, six championship golf courses and an Indy Car race track.

And the growth continues. Next year we will add 2,000 more rooms and a 95,000-square-foot convention center at the new Disney's Coronado Springs Hotel, not to mention our giant new sports complex, which will be home to the U.S. Amateur Athletic Union (AAU), the spring training site for the Atlanta Braves and the training site for the Harlem Globetrotters.

Disneyland Paris was host to 550 children from 11 countries at the annual Children's Summit, presented by Disney in conjunction with UNESCO.

And to top it off we will open our largest theme park ever, Disney's Animal Kingdom, in early 1998. That is the same year we also will launch our two new Disney cruise ships, which will allow us to offer vacations that combine visits to Walt Disney World with a Caribbean cruise. Meanwhile, we are finally moving forward on a second theme park called Disney's California Adventure adjacent to Disneyland in Anaheim, and plans are also in advanced stages for Tokyo DisneySea, a second theme park adjacent to Tokyo Disneyland.

Our theme parks and resorts segment remains a strong growth business. The Disney style of vacationing with its diverse range of entertainment, educational and athletic experiences that can be found nowhere else continues to grow in popularity among people of all ages from every part of the world. So long as we design with unlimited imagination, attain the highest levels of quality in our execution and maintain our standards for the finest hospitality — goals to which we are firmly committed — our theme parks and resorts will continue to grow and flourish.

The experience I had in 1984 going to Walt Disney World with my young family was wonderful. It made me realize how unusual this company was. And going back year after year only reinforces those feelings. Among other things a family can do together is play together. I've always wanted to do an advertising campaign for our parks with the tag line, "The family that plays together stays together."

During this past year, revenues in our Theme Parks and Resorts segment grew by 13 percent to \$4.5 billion, up from \$4 billion in 1995 when our theme park revenues increased 14 percent. As these numbers suggest, all our theme parks are on a roll, setting new annual attendance records this past year in Florida, California, Tokyo and Paris.

Disneyland Paris is the most visited paid tourist site in France, drawing twice as many guests as the famed Eiffel Tower. Attendance at Disneyland Paris during the past fiscal year was close to 12 million.

Tokyo Disneyland also performed fantastically, hosting nearly 17 million guests, and Disneyland in Anaheim outperformed its best year ever by marketing the closing of the *Main Street Electrical Parade* in anticipation of a new evening show called *Light Magic*, which opens in the spring.

Over the past dozen years, we have enjoyed similar growth in our film business — both in feature animation and live-action production. As a matter of fact, one out of four movie tickets sold in North America is for a movie released by your company.

The world is aware of the string of animated blockbusters we have produced during the past several years (*The Little Mermaid, Beauty and the Beast, Aladdin, Pocahontas, The Lion King* and *The Hunchback of Notre Dame*). The specific success outside the United States of *Hunchback* is particularly gratifying. The wonderful response to these Disney features has caught the attention of every major Hollywood studio, and many of them are within months of introducing their own entries into the animation marketplace, something that I will say in a most

Disney CEO Eisner and McDonald's CEO Michael Quinlan flank Phoebe Irby, early childhood teacher from Dover (Florida) School and 1996 Outstanding Teacher of the Year.

mature way is a flattering sign. Also, I do have to reluctantly admit that competition raises the bar of excellence for all of us in the industry, and I am confident that Disney's best will continue to be the industry's best when all the smoke has cleared.

Our animated feature schedule for the next few years is a strong one. Features in the works include *Hercules* in the summer of 1997 and a raft of titles that will take us into the millennium, including *Mulan, Tarzan, Fantasia '99, Bugs* (working title for the next feature we are doing in collaboration with director John Lasseter and Pixar, which gave us the fabulously successful *Toy Story* this past year) and *Dinosaur*. Three additional animated features are in the works, one from John Musker and Ron Clements, who directed *The Little Mermaid* and *Aladdin*, one from the directorial team of Kirk Wise and Gary Trousdale, who brought *Beauty and the Beast* and *The Hunchback of Notre Dame* to the screen, and one from Roger Allers, the director of *The Lion King*.

In looking at our current live-action release schedule, it is difficult to believe that we distributed just two live-action motion pictures back in 1984. We have added to the annual output each year since. During the past fiscal year, our total of live-action film releases was 29. This is in addition to Miramax film releases over the same period, which totaled 36. Coming up with a definitive philosophy on how to operate in the movie business is like trying to decide what your major in college should be, or exactly how to invest in the stock market, or what kind and how much exercise to do, or what diet really reduces cholesterol.

Each day, you are absolutely sure of another approach, and you are sure of it with conviction. The one thing I am sure of in making movies is that a great idea well executed will create a hit even if the film is expensive, that a good idea well executed will survive unless the costs are out of control, that a poor idea brilliantly executed will fail at any cost, and that a poor idea badly executed and expensive will be a total disaster from coast to coast and around the world. We will continue to try to produce great ideas!

In order to focus on the best ideas, our studios have embarked on a program to reduce significantly the number of films released by Buena Vista (our motion picture releasing company) in the years immediately ahead. The market has become over-crowded with films vying every weekend of the year for the attention of a finite number of filmgoers. Films which fail to attract a large enough audience during the first weekend are doomed to early removal from the nation's screens. This has had the effect of increasing the cost of talent and marketing to exorbitant levels as studios have scrambled to secure "stars" and get out the word on their upcoming offerings.

Disney's Youth Symphony Orchestra with guest conductor.

We plan to concentrate on a smaller number of higher-impact, star-driven films with greater potential for establishing themselves early in the domestic marketplace and creating greater demand in the increasingly important international marketplace.

Even more intriguing, we are pursuing a plan to take one or two properties each year and convert them into blockbuster live-action "event" films under the Walt Disney Pictures banner with the underlying strategy that the entire Disney Company will promote, publicize and support the picture in the same way we turn an animated film into a company-wide effort.

The first of these properties was *101 Dalmatians*. The original film, of course, is a Disney animated classic. The new live-action version has been produced and marketed as well as any property I have seen in my career. Watching from the sidelines and enjoying the creative process take place this year has been wonderful. Judging from the performance of this film, the studios have succeeded in relaunching live-action films under the Walt Disney Pictures label as a major component of the Disney franchise.

Other properties now in production that are being considered for the same special treatment include *George of the Jungle* and *The Absent-Minded Professor*, which stars Robin Williams.

Each of our businesses is run by the most skilled executives in their respective industries, and descriptions of their businesses are covered in other sections in this report. In the past I have mentioned each executive by name, going as deep into the organization as space would allow. This year, instead, I will use my allocation of "ink" to salute all the 100,000 cast members who make this company run, from a ride operator in Disneyland to a cameraman on *Prime Time Live*, from an "in-betweener" in feature animation to a satellite operator of The Disney Channel in Taiwan, from a room service captain at Disneyland Paris to an editor at Mouseworks, from one continent to another, from consumer products to publishing to broadcasting to The Disney Channel to ESPN to ABC Daytime to Typhoon Lagoon and four Main Streets around the world. It is these dedicated people who make up your company and deserve your praise.

Let me introduce you to a few of them:

Valerie E. Edwards, in her ninth year with the company, is chief sculptor at Walt Disney Imagineering. In that position, she is responsible for all three-dimensional representations of Disney characters used by animators and creators of Disney theme parks. She guides the process of turning clay forms into moving figures.

Tom Nabbe, a 40-year cast member working for Distribution Service, Walt Disney World, was the first Tom Sawyer, hired by Walt himself in 1956. He is well-known for his creation of the "Nabbe Grabber" — a device used by custodial hosts and hostesses to pick up litter from the ground.

Ron Wood, circulation director, *The Oakland Press*, is a 26-year veteran of the newspaper. When the paper's two main rivals in nearby Detroit

were hit by strikes last year, Wood's 126 full- and part-time employees kicked into high gear to propel the newspaper to its highest daily and Sunday circulation ever.

Shoko Ohto is show quality administrator in the Design Office at Walt Disney Attractions, Japan. She was the first Japanese employee hired by Disney in 1979 to work on the Tokyo Disneyland project, which was then still in the early planning stages.

Pat Hopkins, labor boss at the Disney Studios in Burbank, is responsible for office moves, office reorganizations and wall picture hangings. Pat is known for his great attitude as well as his eagerness to do whatever needs getting done.

Cristina Giosa splits her time between Mexico City and her home location, Buenos Aires, Argentina, where she serves as director of marketing for Buena Vista Home Entertainment's Latin America licensees. A true pioneer in video marketing since joining Disney 5 1/2 years ago, Cristina was one of the key people involved in the launch of BVHE in Mexico this past year and temporarily serves as head of marketing for that country in addition to her regular duties.

Edward Collins, who during his 13 years with the company, was responsible for managing the renovation of the El Capitan Theater, Hollywood, and has been involved in special promotions including *The Toy Story Funhouse*, *Pocahontas* in Central Park and *The Lion King* premiere at Radio City Music Hall.

Jennifer Campbell, an eight-year Disney employee, has been helping coordinate the annual International Children's Summit in her capacity as director of special events for the Disney Consumer Products European regional office in Paris.

These cast members...and thousands of others like them...make Disney what it is, a very special company.

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February 9 was the day we finally closed our merger with ABC. It was also the day I started re-immersing myself in a television broadcasting business that gave me my professional start many years ago. I had forgotten what it was like getting up every morning to the ratings. It's like getting your final exam results over and over again. And of course there is always that test you thought you got an A in and later found out you had read the question wrong.

As fate would have it, the ABC network, number one in prime time total household viewing in 1994-95, started slipping in the ratings in the months prior to the merger. To stem this slippage, ABC network programmers worked diligently starting late in the 1995-96 TV season to refashion a prime time lineup for the opening of the 1996-97 season in September.

While the competitive results to date have been mixed, I am pleased to report that we have stanched much of the bleeding and, in fact, are making slow but steady progress toward better ratings.

The idea in the prime time development business is to create one new hit every season and over time build a number one schedule. Every network that becomes number one — and three out of the four primary networks have been number one at some point in their history — does it one show at a time. Patience, perseverance, creativity, some good fortune is the way to go. Panic is not an ingredient needed in this mix.

It is harder and more expensive today than it was when I worked in TV in the '70s. Today, there are six broadcast networks, tens of cable networks, pay television networks, sports networks, games networks, and of course, the computer. I am happy about e-mail and computer "spell check," but unhappy about computers as another competitor in entertainment. But if ABC keeps its eye on the ball, doesn't merely wait for great ideas to come in the

door but also creates them inside, does not join the shark frenzy of panicked buying and maintains management stability, we will once again be number one.

In the meantime, there is some encouraging news. ABC's two-year drought of not producing a successful new series is over. *The Drew Carey Show* from last season's crop has become an unqualified hit in its second season. This year's *Spin City* ranks as the 7th-highest-rated series on television among young adults, averaging a 10.2 rating. *Life's Work*, produced by our own Buena Vista Television group, is the third-most-popular new show on television among young adults and wins its time period by as much as 85 percent. *Sabrina, The Teenage Witch* is the highest-rated show among young adults on ABC's Friday Night TGIF lineup and the number one show on television among children 2-11.

I am confident that as we go forward Disney will make substantial contributions to the success of the ABC network. I look forward especially to our launch next fall of the *Wonderful World of Disney* franchise show we are planning for Sunday nights. The show will offer a full season of theatrical features such as *Toy Story, Pocahontas* and *The Hunchback of Notre Dame*, as well as Disney-made movies for television. We fully expect that airing these films as part of *Wonderful World of Disney* will give ABC a giant boost in the ratings, and we base that expectation on our recent network premiere of *The Lion King* on ABC during the November sweeps. The movie not only dominated its time period but gave the network a badly needed win for the entire week.

The bad news, of course, is the complete dominance of NBC's Thursday night lineup, which includes several of the top shows in the ratings each week. These successful shows reinforce each other, and it will be some time before any network, including our own, will be able to make substantial inroads on Thursday. I have been there before. I worked at ABC when we had to face CBS's Saturday night domination. That domination did pass.

I also feel that as time goes on acceptance of Disney's Saturday morning slate of children's shows will also enhance the network and give the company additional Disney content to satisfy the hunger for programming on our Disney Channels around the world.

We have placed all cable operations under ABC management, which in addition to ESPN Channels and the partnerships of Lifetime, A&E and the History Channel include The Disney Channel which is still commercial-free and whose audience now numbers 25 million households. ESPN and ABC Sports are now also under one management. While Disney's domestic TV syndication company, Buena Vista, and its similar operations outside the United States including the offshore Disney Channels are managed under the ABC umbrella, our home video and interactive operations including those from ABC are managed by the Disney Home Video and Interactive and On-line Groups. In other words, the marriage of ABC and Disney has taken place and properties have been combined where it makes sense. These marriages of operations have already produced results. ESPNews, a 24-hour sports news cable channel, is on line, a soap opera channel is "on deck," and a children's educational and entertainment channel is in the works.

ABC Sports, incidentally, will be beneficiary of the historic agreement among the NCAA, established football conferences and bowls to hold national championship playoff games for the first time. Our network will carry the first game for the 1997 championship in January 1998. And as football fortunes would have it, this year's Rose Bowl

and Sugar Bowl telecasts on ABC feature the NCAA's only undefeated Division 1 schools, thus serving as a *de facto* playoff for determining the 1996 champion as well.

Our Consumer Products group, whose financial results are now included in the Creative Content segment, continues to grow. After all these years, its primary strength stems from the continuing popularity of Disney's standard characters — Mickey and Minnie, Donald, Goofy, Pluto and the recently acquired Winnie the Pooh license, which is owned by the heirs of the creator, A. A. Milne.

Also popular, of course, are characters from the company's animated features, including *101 Dalmatians*, *Pocahontas*, *The Hunchback of Notre Dame*, *Aladdin* and *The Little Mermaid*.

Consumer Products also includes our Disney Stores, of which there are now more than 550 in 11 countries. Remember, there were none just 10 years ago.

In addition to being the great success The Disney Stores have proven to be, they offer a glowing example of how a small idea, pushed along and nurtured, can evolve within a company like Disney and become a significant business.

We are opening one ESPN store in the Glendale Galleria in Southern California, the mall in which we opened our first Disney Store in 1987. We did not pick this location because of superstition, although that would be a reasonable conclusion. We picked it because it is down the block from our corporate headquarters.

In February we are also opening a new type of family play place called Club Disney in Thousand Oaks, California. This "imagination-powered playsite" where children, their friends and grown-ups can bond through active, interactive and creative play will serve as a possible prototype for additional playsites which would be developed and operated by the new Disney Regional Entertainment group.

Another operation of which I am especially proud is our Disney Interactive group. Even though it takes significant investment to enter this new industry, this unit is achieving explosive growth since its inception in December 1994. The group has released five of the best-selling children's software titles and several chart-topping video games in its relatively short history. Last year Disney Interactive partnered with Pixar for development of the *Toy Story Animated Storybook*, which sold nearly a half-million copies, making it one of the best-sellers of 1996. We hope to show profits in this area by 1998.

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Performance is one of the most important words in the Disney lexicon, perhaps because we started out as a film production company where the focus has always been on successfully entertaining the audience.

We have 1.5 million shareholder accounts, and pleasing you is a major preoccupation for those of us charged with making important day-to-day decisions on where and how we will represent your interests, invest your money and promote and manage your properties in ways that benefit you most.

The Disney culture, and maintaining it, is still my number one priority. Equally important is maintaining the autonomous ABC news culture: serving the broadest possible public interest, being willing to stand for the values of a free press, pursuing the news aggressively, reporting it without fear or favor, and being guided by an unbiased commitment to fairness and honesty and tough-mindedness, all the while resisting the pressure to pull punches,

homogenize the product and avoid all controversy — and doing all this with the same high standards of excellence that we pursue in all of our divisions.

This coming year should be exciting. *Hercules*, our 35th animated movie, opens nationwide on June 20. I've seen it...a smash!!!!! I don't have room in this report to beat around the bush. We will test even further the idea of doing Disney movies directly for the home video market as we release *Honey, We Shrunk Ourselves* in March and *Winnie the Pooh* later in the year. And we will follow the successful *Beauty and the Beast* on Broadway with *The Lion King*, which opens in the New Amsterdam Theater on 42nd Street next fall.

We are preparing for the millennium. We have a sizable but very manageable debt load coming off our Capital/ABC acquisition. This will be paid down out of excess cash in a reasonable amount of time. Our additional excess cash and debt capacity will basically be used to invest in extensions of our current business and to repurchase our own shares.

You will note in the financial review, which immediately follows this letter, that in the fourth quarter we repurchased 8.2 million shares for $462 million as our stock showed some weakness just after the close of the merger. In my 12 years at Disney, we have repurchased 84.4 million shares at an average price of $25.59, for a total investment of $2.2 billion for shares that are worth over $6.2 billion today. I wish we could have bought more, but doesn't everybody say that when things go well? I doubt we will use our excess cash for the other possibilities available — namely a large acquisition or a huge dividend. We've made our large purchase for the time being, and most of our shareholders would rather we invest in growth than pay out the cash in additional dividends. We have to manage the growth of revenue while we equally manage the cost of doing business. Both are what contribute to earnings-per-share growth. We are always lowering or trying to lower our cost of capital, and we are always trying to protect the company from undue financial risk.

Finally, you have no doubt read by now that we and Michael Ovitz have come to an agreement that he will leave his position as president but continue in a role as an advisor to the company and its Board of Directors. While I will miss Michael's energy, creativity and enthusiasm, our shared view is that this decision is in the best interest of Disney.

We do not plan to name a successor to Michael but will continue to operate organizationally as we did prior to his arrival.

Over the past decade, we have steadily built a strong creative and management team and I am confident that Disney will continue to develop new businesses and to maintain its leadership position in its existing businesses.

Your company now is quite large, but as large as it is, the primary principles of its growth continue. Excellence in every adventure! The spirit of the Mouse for every season!

Speaking for all the cast members of The Walt Disney Company, your management will continue to build and prepare for the future with the compasses of growth and ethics headed in the same direction. We appreciate your continued support.

Sincerely,

Michael D. Eisner

Michael D. Eisner
Chairman and CEO

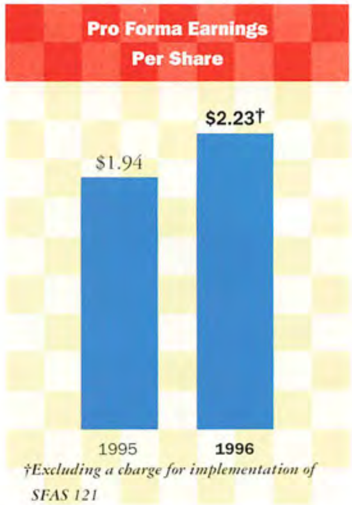
Financial Review

In a year centered around the acquisition of Capital Cities/ABC, Inc., The Walt Disney Company remained true to its fundamental financial goal of creating shareholder value. The ongoing integration of these two preeminent companies and their world-renowned brands allows Disney to position new assets alongside existing ones and to continue the tradition of providing earnings growth and new value for shareholders.

Richard D. Nanula, senior executive vice president and chief financial officer, The Walt Disney Company.

Overview

In 1996, the company's pro forma earnings per share increased to $2.23, 15% higher than 1995 pro forma earnings per share of $1.94.



Disney achieved 15% growth in earnings per share in 1996.

The company believes that pro forma results, which assume the acquisition of ABC had occurred at the beginning of each fiscal year period, represent the best comparative standard for assessing earnings growth. Additionally, Disney believes that the most meaningful measure for valuation purposes is pro forma earnings per share adjusted to exclude the amortization of goodwill associated with the acquisition. This non-cash charge was approximately $0.66 per share in 1996; pro forma earnings per share before goodwill were $2.89.

Disney's continued financial success is due in part to the implementation of the company's overriding strategic objectives: to sustain Disney as the world's premier entertainment company; to protect and

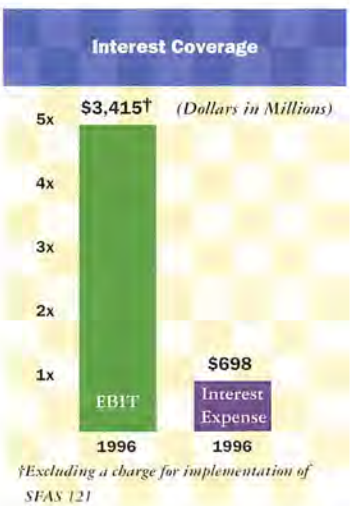
build upon the Disney name and franchise; and to preserve and foster quality, imagination and guest service.

Following the acquisition, the company's ongoing financial objective is to achieve 20% compound annual growth in earnings per share over any future five-year period. Additionally, steady improvement in return on equity (ROE) remains a secondary, but important, financial objective. Disney's pro forma ROE in 1996 was 10%, significantly lower than the prior year's ROE primarily due to the issuance of almost $9 billion of new equity in the acquisition of ABC. The company believes that the attainment of pre-acquisition ROE levels is possible over the longer term through continued earnings growth and selective share repurchase.

Capital Structure

Disney shareholders benefit from the realignment of the company's capital structure resulting from $9 billion in new debt incurred in the ABC transaction. Attractive borrowing rates, as well as the favorable tax treatment of debt financing, have substantially reduced the company's overall cost of capital and help to create value for shareholders.

Despite the debt associated with the acquisition, Disney still has the financial flexibility to borrow prudently should sound business opportunities present themselves. As measured by pro forma earnings before interest and taxes (EBIT) to interest expense, the company covered its interest costs by a healthy factor of five times for the year ended September 30, 1996.



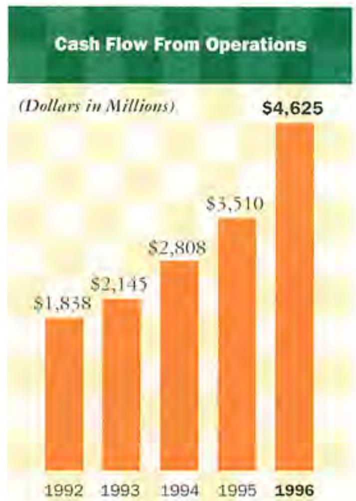
†Excluding a charge for implementation of SFAS 121

In 1996, Disney's earnings before interest and taxes were 5 times larger than the company's interest expense.

The company monitors its cash flow, interest coverage and its debt-to-total capital ratio with the long-term goal of maintaining a strong single-A or better credit rating. Standard & Poor's/Moody's rate Disney's long-term debt A/A2 and its short-term debt A1/P1. Additionally, as part of its overall risk management program, the company evaluates and manages its exposure to changes in interest rates on an ongoing basis.

Cash Flow

As-reported cash flow from operations passed $4.6 billion this year, a 32% increase over prior year.



Disney generated $4.6 billion of cash flow from operations in 1996.

This strong cash-generating performance was due in part to the high levels of cash flow contributed over just a partial-year period from several of the company's new broadcasting-related businesses, such as its owned television stations and ESPN. Over the past five years, Disney has generated total cash flow from operations of close to $15 billion, most of which has been reinvested in the company's core businesses, in acquisitions and new initiatives and in selective share repurchase.

Another measure of cash flow, earnings before interest, taxes, depreciation and amortization (EBITDA) — which does not reflect an add-back for amortization of film and television costs, consistent

with convention in the entertainment industry — also grew in 1996. Although Disney has consistently grown its EBITDA over the last five years, the company believes EBITDA is a less useful measure of overall financial performance than pro forma earnings before goodwill. As stated earlier, Disney finds that pre-goodwill earnings, unlike EBITDA, better reflect the "real" costs of depreciation and interest expense associated with a company's capital spending activities and leverage.

In 1996, approximately $235 million, or just 5% of total cash flow from operations, was spent to maintain existing assets. The remaining $1,510 million of reported 1996 capital spending was used to fuel Disney's growth by expanding the company's existing businesses, such as new theme park assets and more Disney Stores, and through investment in new initiatives, including Disney's Animal Kingdom and Disney Cruise Line. In order to build value for shareholders, Disney's priorities for use of its substantial cash flow continue to be investment for attractive return in new and existing businesses and opportunistic repurchase of its own shares, before the accelerated repayment of any of its indebtedness.

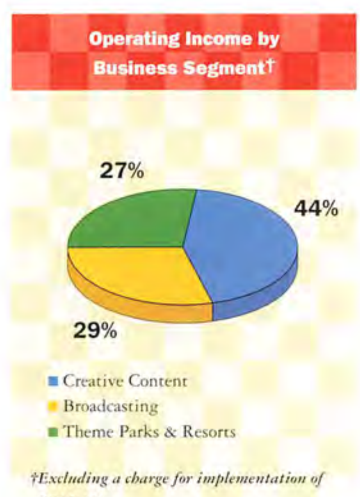
Sanford M. Litvack, senior executive vice president and chief of corporate operations, The Walt Disney Company.

Repurchase of Shares

Disney invested $462 million in its own stock in fiscal year 1996, repurchasing 8.2 million shares at an average price of $56½. Since 1985, Disney has invested a total of $2.2 billion to buy back 84.4 million shares at an average price of $25½. Since 1990 the company has invested $2 billion to buy back 55.6 million shares at an average price of $35¾, thereby creating additional value for shareholders. Measured as of November 30, 1996, these shares were worth $6.2 billion and $4.1 billion, respectively. As of the end of fiscal 1996, Disney had authorization to repurchase an additional 96.3 million shares.

Balance

In 1996, 44% of Disney's pro forma operating income was generated by the Creative Content segment, with the remainder almost evenly divided between Broadcasting (29%) and Theme Parks & Resorts (27%).



Each of Disney's three business segments made a significant contribution to the company's total operating income in 1996.

This balanced operating income mix lessens the exposure of the company as a whole to volatility or cyclicality in any single business and

significantly reduces risk, assisting the company in the pursuit of its long-term earnings growth objective.

At the same time, the company generates revenues from more countries each year as Disney and its brands are welcomed around the world. This year, for example, The Disney Store opened its doors

In 1996, Disney continued its worldwide expansion, producing $4.3 billion in international revenues.

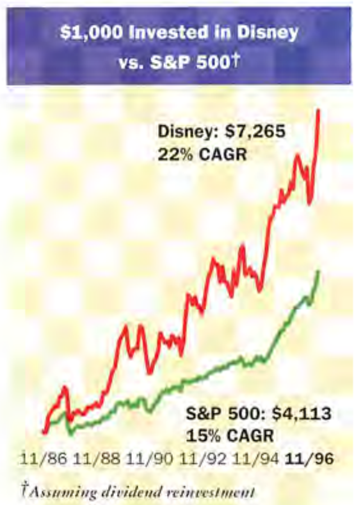
for the first time in Australia, ESPN debuted in India and The Disney Channel gained new subscribers in the United Kingdom. As a result, in 1996 on an as-reported basis, revenues from international sources reached a new high of $4.3 billion, or 23% of total company revenues.

As Disney continues to explore and expand the worldwide potential of its products and services, it benefits from an ever-decreasing reliance on any single country or region's economic health for its financial well-being and success. And, as in the past, the company continues to monitor and manage its economic exposure to foreign currency fluctuations as part of its overall financial risk management program.

Dividends and Total Return to Investors

In January 1996, Disney's Board of Directors voted to increase the company's quarterly dividend by 20% — as it has each year since 1988 — from 9¢ to 11¢ per share. Over that time, Disney's annual dividend has grown at a rate 3.6 times faster than that of the Standard & Poor's 500.

As a result of Disney's financial performance and earnings per share growth over the past decade, driven by expansion of existing businesses, investment in new businesses and share repurchase, the return to long-term investors in Disney stock has surpassed the return delivered by the market overall, as measured by the Standard & Poor's 500. An investment of $1,000 in Disney stock on November 30, 1986 — including reinvestment of dividends —

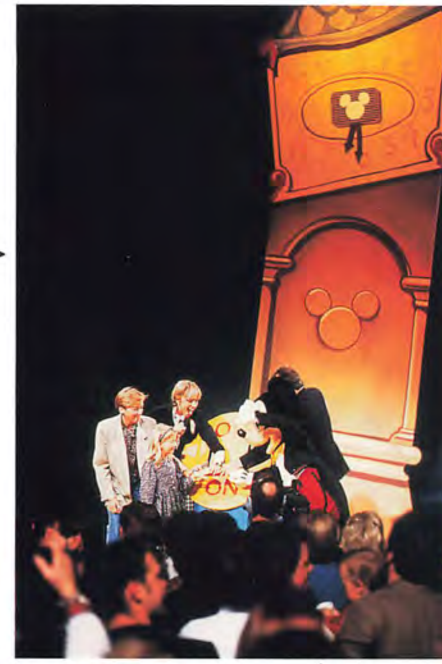


The performance of DIS stock has outpaced the market over the last ten years.

was worth $7,265 on November 30, 1996, providing a 22% compound annual return. A similar investment in the Standard & Poor's 500 would have been worth $4,113 over the same timeframe, representing a 15% annual return to investors.

Disney Year in Review

October 1, 1995
Disney Vacation Club opens Vero Beach Resort.

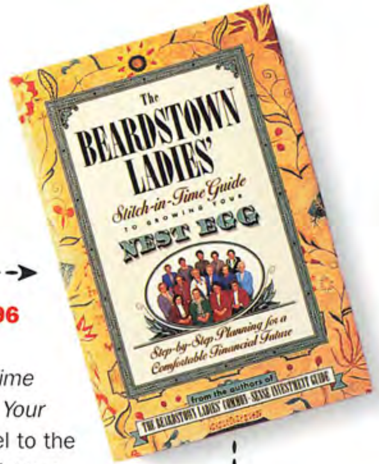


October 1, 1995
The Disney Channel launches service in the United Kingdom.

November 22, 1995
Toy Story opens nationwide, is an instant hit and goes on to earn more than $355 million worldwide.

November 24, 1995
Disney-MGM Studios presents the spectacular *Lights, Camera, Christmas!* light display, which returned in 1996.

December 29, 1995
Mr. Holland's Opus opens in a limited engagement. It goes on to gross $83 million at the domestic box office and Richard Dreyfuss is nominated for Best Actor.



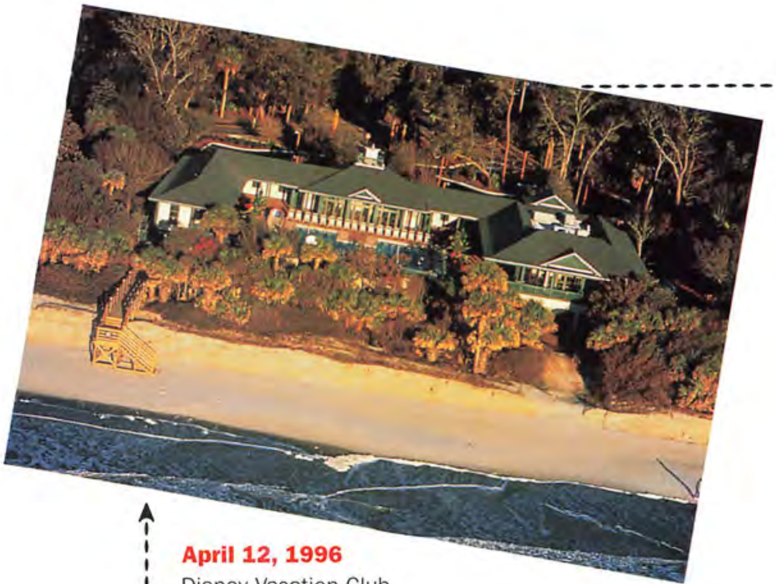
January 25, 1996
The Beardstown Ladies' Stitch-in-Time Guide To Growing Your Nest Egg, a sequel to the best-selling *Beardstown Ladies' Common Sense Investment Guides,* is released.

January 27, 1996
Motor sports finds new home on one-mile tri-oval track that hosts the inaugural INDY 200 at Walt Disney World.

February 9, 1996
The acquisition of Capital Cities/ABC by Disney is officially completed.

February 9, 1996
The Disney Institute opens at Walt Disney World.

March 25
Whoopi Goldberg hosts the Academy Awards. Show draws a 30.3 rating and 50% share for ABC.



April 12, 1996
Disney Vacation Club opens new Hilton Head, South Carolina, resort.

April 18, 1996
Beauty and the Beast marks its 2nd anniversary on Broadway.

May 15, 1996
Building a Dream: The Art of Disney Architecture arrives in stores.

May 18, 1996
The California Angels and Disney reach an agreement for Disney to acquire a 25 percent interest in the baseball team and to assume the role of managing general partner.

ANAHEIM ANGELS
SM

June 7, 1996

The Rock (Hollywood), starring Sean Connery and Nicholas Cage, opens strongly and earns more than $340 million worldwide.

June 18, 1996

The new town of Celebration greets its first residents.

May 22, 1996

The Disney Store opens on Manhattan's Fifth Avenue and sets sales records on opening day.

June 21, 1996

The Hunchback of Notre Dame is released and goes on to reap nearly $100 million at the nation's box office.

July 1, 1996

Disney's BoardWalk opens at Walt Disney World.

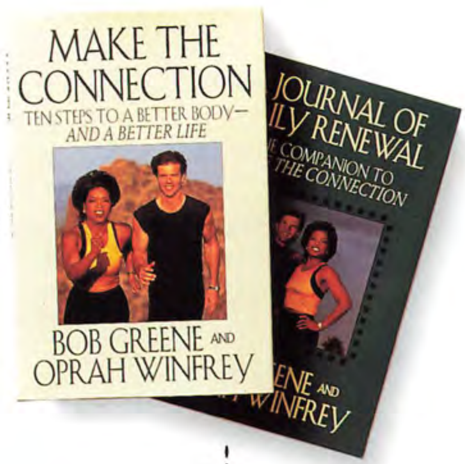
July 2, 1996

Walt Disney Records releases its third collection of favorite musical moments, *Classic Disney: Sixty Years of Musical Magic.*

August 13, 1996
Aladdin and The King of Thieves, starring Robin Williams, is released direct-to-video.

September 8, 1996
The Lion King premieres on The Disney Channel and later enjoys a successful network premiere on ABC in November.

September 11, 1996
Hyperion Books' *Make the Connection* by Bob Greene and Oprah Winfrey is released and goes straight to number one on the best-seller list.



July 10, 1996
Phenomenon, starring Kyra Sedgwick and John Travolta, receives good reviews and goes on to earn more than $145 million worldwide.

October 1996
James and the Giant Peach and *Toy Story* are big home video winners for the holiday season.

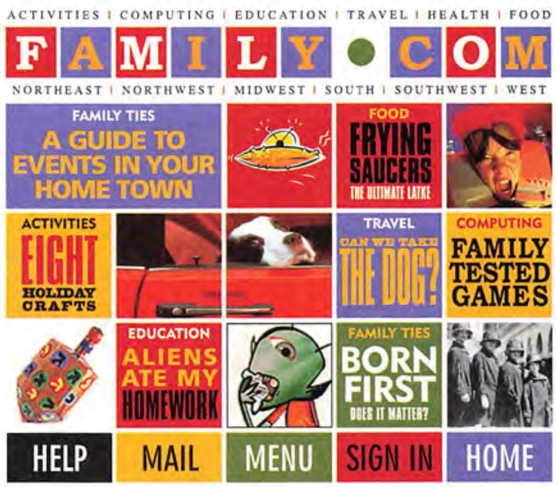
October 1, 1996
Walt Disney World celebrates its 25th anniversary.

November 8, 1996
Ransom, starring Mel Gibson, is released and passes $105 million domestically by the end of the Thanksgiving weekend.

November 25, 1996
The *Main Street Electrical Parade,* which drew hundreds of thousands in its final year, makes its farewell Disneyland appearance.

November 27, 1996
101 Dalmatians opens in time for Thanksgiving and sets a record — $45 million — for the long weekend. Some 140 licensees are offering more than 10,000 items in support of the film.

December 1996
Disney Online announces Family.com, a World Wide Web site providing information on food, travel and family activities for parents at http://www.family.com.



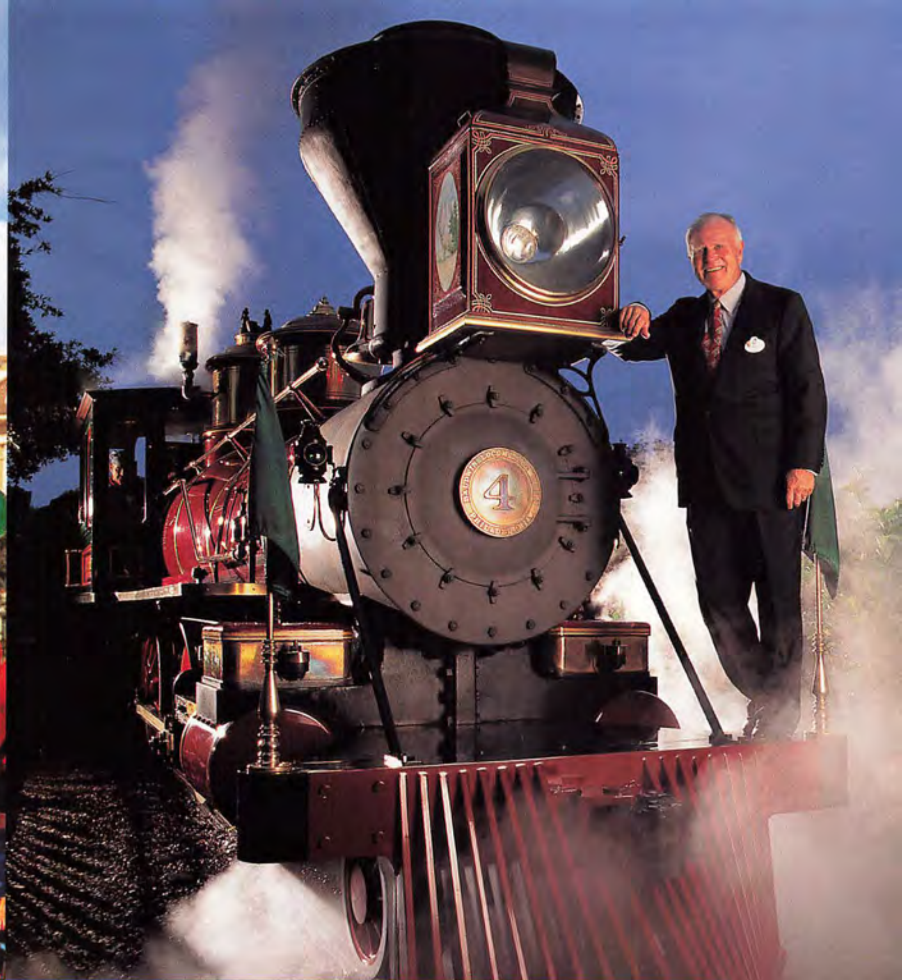
Theme Parks and Resorts

Disney theme parks and resorts continue to be the most popular in the world, setting attendance records at every site. Two of the most ambitious projects in company history are under way — Disney's Animal Kingdom in Florida and Disney's California Adventure. Design schematics for Tokyo DisneySea are being prepared for final consideration.

When Walt Disney World opened in 1971, an E-ticket was a coveted coupon promising high-energy thrills. Now the E-ticket is just a memory, but the excitement lives on.

Helping celebrate the 25th anniversary at Walt Disney World Resort were (left to right) Mickey Mouse, Disney Vice Chairman Roy E. Disney, Chairman Michael D. Eisner, First Lady Hillary Rodham Clinton and Florida Governor Lawton Chiles.

Illuminations lights up the Epcot skies.



Above: Cinderella's Castle at Walt Disney World is transformed into a giant birthday cake for the celebration. Below: The *Toy Story Parade* was a popular event throughout 1996 at the Disney-MGM Studios.

Above: Richard A. Nunis, chairman of Walt Disney Attractions, rides the rails on the Magic Kingdom locomotive.
Below: Judson C. Green, president of Walt Disney Attractions, joins Mickey outside the new Team Disney Building at Disneyland.

Above: The Disney family of characters all turned out for the Walt Disney World anniversary. Below: Walt Disney World visitors were treated to *The Hunchback of Notre Dame* Stage Show during the year. Right: Walt Disney World Resort continues to grow with each year.

Above: One of Walt Disney World's newest venues is Disney's BoardWalk, a hotel, vacation club resort and nighttime entertainment center.
Below: Mickey's Toontown Fair opened at the Magic Kingdom in time for the anniversary celebration.

Below: A World of Disney megastore located at the Disney Village Marketplace also opened in time for the anniversary festivities.
Below left: Guests encounter life-size dinosaurs at Epcot's new Universe of Energy, presented by Exxon.

Young professional golf sensation Tiger Woods is joined by Tigger as he celebrates his $216,000 victory in the 1996 Walt Disney World Oldsmobile Golf Classic.

Top: Guests grip their seats in fear at the ExtraTERRORestrial Alien Encounter in the New Tomorrowland at Walt Disney World's Magic Kingdom.
Above: A family snorkels through the waters of Typhoon Lagoon.

Artist's rendering features elements of Disney's Animal Kingdom, a new 500-acre theme park scheduled to open in spring of 1998.

Walt Disney World The 15-month-long 25th anniversary celebration began October 1 with the rededication of the resort by CEO Michael Eisner, Vice Chairman Roy Disney and First Lady Hillary Rodham Clinton. Cinderella's Castle — transformed for the occasion into a pink birthday cake — served as a backdrop. "Remember the Magic" is the theme for the celebration, which is welcoming back every past guest to Walt Disney World.

Besides all the anniversary merrymaking, much will be happening in 1997. Disney's Wide World of Sports complex opens in May, providing more than 175 acres of state-of-the-art facilities — stadiums, fields and fieldhouses for more than two dozen sports, including baseball, basketball, soccer and tennis. The complex will be home to the Amateur Athletic Union and the Harlem Globetrotters. It will also serve as the spring training site for the Atlanta Braves beginning in 1998. The All-Star Cafe on the grounds will be the ultimate restaurant for sports fans.

Test Track presented by General Motors at Epcot will make its debut this summer. Guests will join other "test drivers" in one of the most advanced ride vehicles ever developed. They will peel out to face grueling roadway conditions, severe weather and even crash testing.

Also this summer, the Hercules parade will open at the Disney-MGM Studios. It will coincide with the release of the company's 35th full-length animated feature, *Hercules*.

The Disney Village Marketplace and Pleasure Island are undergoing expansions that eventually will double their size. The entire area will be renamed Downtown Disney. New clubs, shops and restaurants will open this summer.

The House of Blues will serve up a sizzling blend of New Orleans food and top-name entertainment. Celebrity chef Wolfgang Puck's cafe will specialize in California cuisine, and Bongos Cuban Cafe — created by singer Gloria Estefan — will feature Latin American food and entertainment.

One of the most famous live entertainment shows in the world comes to town — permanently — in 1998. *Cirque du Soleil* will bring its high-energy performances to a state-of-the-art theater in the entertainment district.

Disney's Coronado Springs Resort will welcome its first guests this summer. This southwestern-themed resort — some 2,000 rooms and suites ringing a 15-acre lake — includes 95,000 square feet of convention space.

Disney enters the vacation cruise business in 1998. Above is *Disney Magic*, the first of two ships which will provide seamless cruise vacation visits from Walt Disney World.

Disney Cruise Line's private island, Castaway Cay, one of the ports of call for Disney cruises.

An artist's rendering of the Animation Dining Room, one of four themed dining rooms aboard the Disney ships.

The world-famous *Cirque du Soleil* will start performing in a permanent venue at Walt Disney World in 1998.

As one of the curriculum choices at the Disney Institute, guests can explore the wildlife away from the attractions at Walt Disney World.

Clopin, one of the featured characters in *The Hunchback of Notre Dame*, serves as master of ceremonies for the *Festival of Fools* at Disneyland.

In 1998, two long-anticipated Disney projects will come to fruition. The Disney Cruise Line will launch two ships — *Disney Magic*, early in the year, and *Disney Wonder*, in the fall. Inspired by the glorious ocean liners of the past, both have been designed with touches that are uniquely Disney. After vacationing at Walt Disney World, guests will board the ships from a specially designed terminal at nearby Port Canaveral and travel to Disney's own Caribbean island.

Each 85,000-ton vessel will include 870 spacious staterooms. Four themed restaurants on each liner will offer guests a different bill of fare every night of the cruise.

That year also brings the opening of Walt Disney World's fourth theme park, Disney's Animal Kingdom. At 500 acres, it will be the largest of all Disney parks, five times the size of the Magic Kingdom.

Already six years in the making, Disney's Animal Kingdom will celebrate the beauty and natural drama of life in the wild and all the animals that ever (or never) existed. The park will combine Disney's creative storytelling with amazing creatures — from prehistoric dinosaurs to live animals roaming free in natural habitats.

Disneyland Resort A new nighttime show, *Light Magic*, will greet guests in 1997. It replaces the *Main Street Electrical Parade*, which officially ended its 25-year run in mid-October, then was held over through November 25 by public demand.

New Tomorrowland, due in 1998, will be a state-of-the-art 3-D adventure. Guests will journey through the land of hot rods of the future, traverse an interactive pavilion of technology and imagination, then be entertained by the addition of the *Honey, I Shrunk the Audience* 3-D presentation, which has been a huge success at Epcot in Florida.

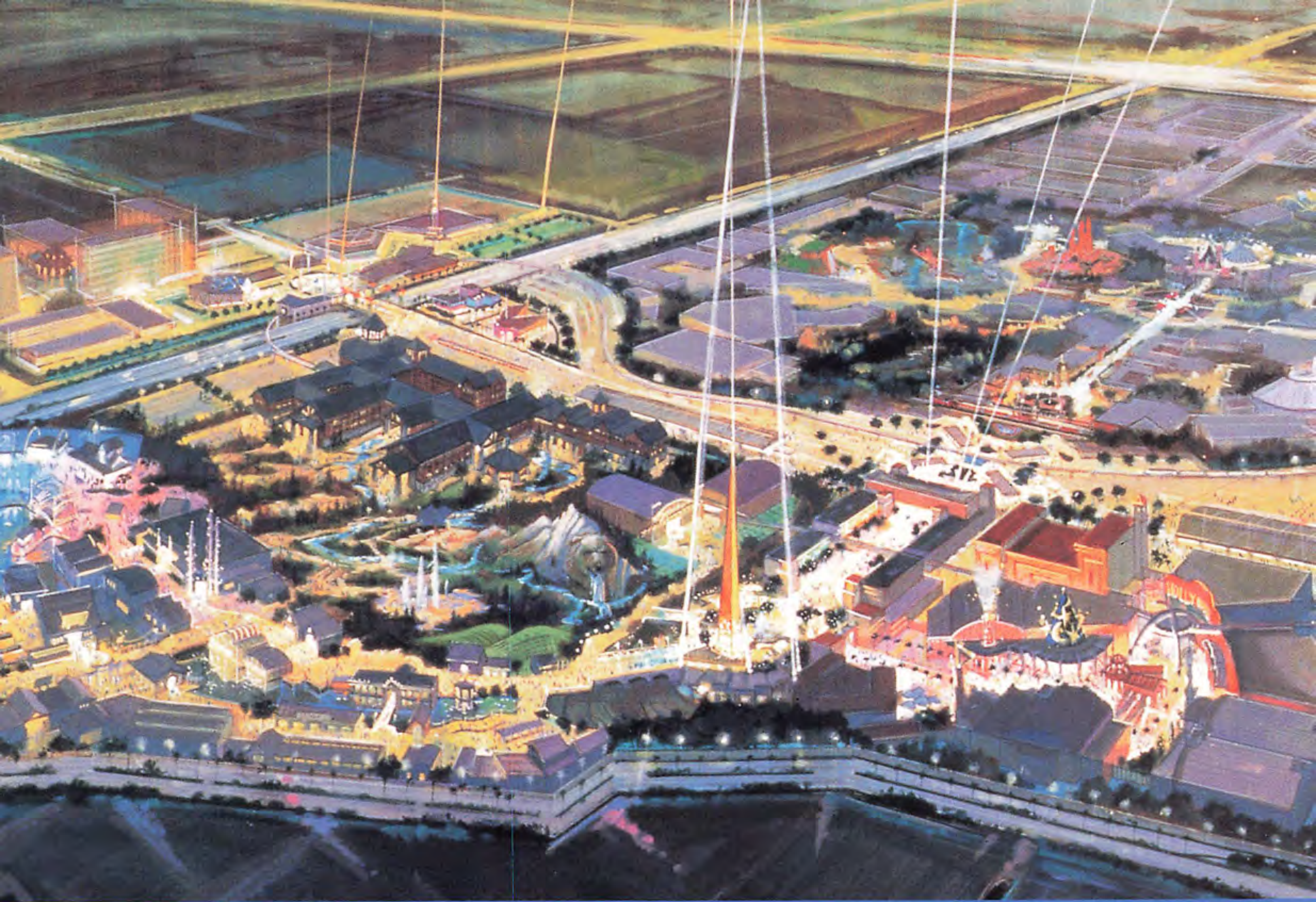
The allure of California's climate, beauty and lifestyle is the genesis for the proposed expansion of The Disneyland Resort, with its centerpiece a new theme park called Disney's California Adventure. The 55-acre expansion will include an entertainment center with shopping, theaters and dining as well as a deluxe hotel. From the glamour of Hollywood to the exhilaration of soaring over Yosemite Valley to a gleaming California beachfront boardwalk, the new theme park will capture California's "Golden State of Mind." Groundbreaking will take place early this year, and opening is expected by 2001.

Tokyo Disneyland The *Honey, I Shrunk the Audience* 3-D attraction will make its debut this year under the title MicroAdventure! In addition, plans are already being developed for the 15th anniversary of Tokyo Disneyland in 1998.

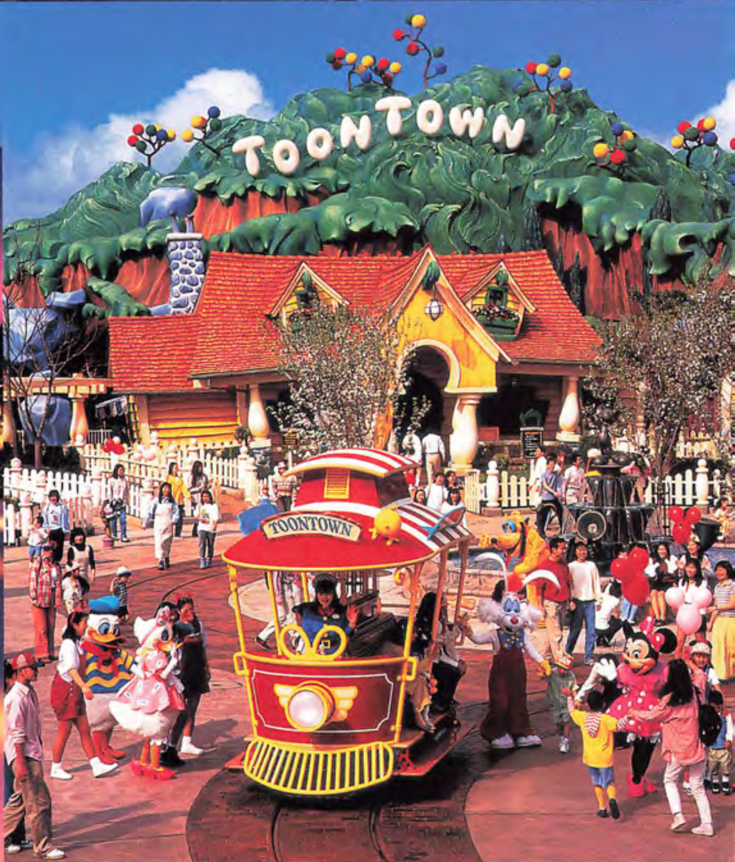
The fabled *Main Street Electrical Parade* made its last trip in November after more than 20 years of delighting guests at Disneyland.

In 1997, an all-new *Light Magic, A Spectacular Journey* nighttime show dealing with the "magic of light and the magic of night" will open at Disneyland.

Work continues on the New Tomorrowland, scheduled to open at Disneyland in 1998.



Work is under way on a second theme park to be built adjoining Disneyland. Above is an artist's rendering of the park, which is to be known as "Disney's California Adventure" and will open early in the 21st Century.



Above: Tokyo Disneyland opened its own Toontown in 1996. Left: Tokyo Disneyland's Christmas Fantasy delighted guests over the holidays.

Tokyo DisneySea Negotiations with Oriental Land Co., owner and operator of Tokyo Disneyland, have resulted in completion of a joint study of the design and business arrangements for this 100-acre theme park and hotel; signed agreements now cover the development, construction and operation.

The target opening year for the park and hotel is 2001.

Maihama Station Area Oriental Land Co. also continues work on this project, with Disney as its design partner. The first phase will include a 500-room Disney hotel, The Disney Store and a themed restaurant, as well as other retail, dining and entertainment facilities.

Disneyland Paris The Gaumont Cinema complex will open its eight screens this year at Disney Village, Disneyland Paris's nighttime entertainment complex.

Plans for the park's fifth anniversary celebration also are being completed. The castle, dressed in a giant jester's hat, will be the symbol of the entire event.

Anaheim Sports, Inc. encompasses ownership of the Mighty Ducks of Anaheim National Hockey League team as well as part ownership and general management responsibility for the Anaheim Angels Major League Baseball franchise.

Last May, Disney acquired a 25 percent interest in the Angels with an option to purchase the entire team at a later date. At the close of the 1996 season, Disney changed the Angels' name to the Anaheim Angels and began a downsizing of the home stadium to bring it back to baseball dimensions. It had previously been expanded to accommodate the Rams football team, which subsequently moved to St. Louis.

Disney Regional Entertainment, a new subsidiary, is creating a variety of entertainment experiences Disney intends to open in various parts of the United States and abroad. These businesses will include sports concepts, interactive entertainment centers, children's play centers and other businesses capitalizing on Disney's creative entertainment talents and the popularity of the Disney brand.

Club Disney, the first such business to be launched, is a free-standing 25,000-square-foot "imagination-powered playsite" premiering in Thousand Oaks, California, in February. Club Disney will offer interactive, creative and active play experiences for children ages 1 to 10 accompanied by grown-ups, who will participate in various activities.

Scenes from Disneyland Paris. Above: Young guest wearing jester hat becomes part of a parade celebrating *The Hunchback of Notre Dame*.

Above: A new addition to the Disneyland Paris scene is the popular Planet Hollywood. Below: Sleeping Beauty's Castle is backdrop for parade down Main Street, U.S.A.

Film and Television

The year was marked by a number of successes for Disney filmed entertainment.

Toy Story, The Rock and *Phenomenon* each exceeded $100 million at the box office, and the animated *The Hunchback of Notre Dame* came within breathing distance of that mark. Two other films — *Mr. Holland's Opus* and *Father of the Bride II* — topped $75 million domestically.

In addition, six movies released near year end, including *Ransom* and the live-action *101 Dalmatians*, should make calendar 1996

Whitney Houston stars as *The Preacher's Wife* (Touchstone) in a Christmas 1996 release which also stars Denzel Washington and Gregory Hines. Penny Marshall directs.

Above: A scene from *Con Air* (Touchstone), an explosive drama starring Nicholas Cage scheduled to open in June. Jerry Bruckheimer produces. Below: Demi Moore stars in a yet-to-be-named military drama from Hollywood/Caravan Pictures to be released in May.

Brendan Fraser of *Encino Man* fame stars as *George of the Jungle,* a Disney Pictures live-action takeoff on the popular cartoon series.

Joely Richardson and Jeff Daniels with dalmatians Perdy and Pongo, in Disney's live-action version of *101 Dalmatians.*

Tim Allen stars in *Jungle2Jungle* (Disney), a remake of the French film, *Indian in the City.* The film premieres in June.

Above: Joseph E. Roth, chairman, The Walt Disney Studios.
Left: Glenn Close plays Cruella De Vil in *101 Dalmatians.*

Above: *Evita* (Hollywood Pictures), starring Madonna, Antonio Banderas and Jonathan Pryce, opened in late December.

Below: Roy E. Disney, vice chairman, The Walt Disney Company and chairman, Walt Disney Feature Animation.

Quasimodo is crowned the King of Fools in *The Hunchback of Notre Dame*, which earned $99 million-plus at domestic box offices in 1996. Home video of the film will be released March 4.

figures even more impressive when they are finally tabulated.

Joe Roth, chairman of Walt Disney Motion Pictures Group, was promoted to chairman of The Walt Disney Studios in April. In addition to his earlier responsibilities, he took charge of Walt Disney and Touchstone Television production and the company's domestic and international home video activities.

Nineteen ninety-seven looks promising.

Metro (Touchstone), an action-comedy starring Eddie Murphy, is first out of the gate in January. A month later, John Cusack, Minnie Driver and Dan Aykroyd star in a comedy, *Grosse Point Blank* (Hollywood/Caravan), in which Cusack and Aykroyd play rival hit men who show up for Cusack's 10th high school reunion.

March brings Tim Allen to the screen in *Jungle2Jungle* (Disney), a touching family comedy about a New York stockbroker, his estranged wife, his fiancée and his newfound 13-year-old son.

A yet-to-be-titled movie (Hollywood), scheduled for May, stars Demi Moore, who becomes the first woman candidate for an elite Navy school.

Nothing to Lose (Touchstone) kicks off the summer season in June. Martin Lawrence and Tim Robbins star in this high-energy comedy about an advertising executive. Nicholas Cage is featured the same month in *Con Air* (Touchstone), an action-thriller about an airplane commandeered by desperate criminals.

The highlight of the year, from the Animation Division, is the June 20 release of *Hercules*, Disney's 35th full-length animated film. The movie, directed by John Musker and Ron Clements, features the music of Academy Award-winning composer Alan Menken and lyricist David Zippel.

In July comes *George of the Jungle* (Disney), a rollicking spoof of the 1970's cartoon series of the same name. It is followed by the August release of *Copland* (Miramax), with Sylvester Stallone as a small-town sheriff. Robert DeNiro and Harvey Keitel play cops in this story of heroism, racism and integrity.

Miramax returns in September with *She's De Lovely.* The love-triangle story stars John Travolta, Sean Penn and Robin Wright. Nick Cassavetes is the director.

Tentacle (Hollywood), scheduled for October, stars Treat Williams aboard a luxury cruise ship in the South China Sea. *Thousand Acres* (Touchstone) offers a top-flight cast that includes Michelle Pfeiffer,

Eddie Murphy, star of *Metro* (Touchstone), is shown here with Michael Rappaport.

Left to right: Famke Janssen, Kevin J. O'Conner, Treat Williams and Wes Studi in a scene from *Tentacle* (Hollywood).

Two of the stars in *Thousand Acres* (Touchstone) scheduled for release in the fall are Jessica Lange and Michelle Pfeiffer.

The English Patient (Miramax) was released in November. The tragic love story features Ralph Fiennes and Kristin Scott Thomas (above), Willem Dafoe and Juliette Binoche.

Robin Williams is *The Absent-Minded Professor* (Disney), scheduled for release late in 1997.

Jessica Lange, Jennifer Jason Leigh and Jason Robards. This drama about an Iowa farmer and his three daughters will reach theaters in October.

Robin Williams is up to his usual antics in *The Absent-Minded Professor* (Disney). The movie is a remake of the 1961 film that starred Fred MacMurray. The reissue of *The Little Mermaid* goes to theaters at Thanksgiving.

A major year-end drama completes the 1997 slate. *The Horse Whisperer,* based on the national best-selling novel, has Robert Redford as its producer, director and star. It is a story of a girl and her horse — and of the rekindled love that develops between her estranged parents.

Touchstone also purchased the film rights to the Michael Crichton novel *Airframe,* published in December. The film is now under development. The label already is at work on a picture based on another Crichton book, *Eaters of the Dead.*

Buena Vista International distributes films outside North America for Disney labels as well as others. *Pocahontas, The Rock* and *Toy Story* led the way as BVI set financial and box-office records overseas in 1996. *The Rock* quickly became the most popular live-action film ever distributed by Disney in international markets.

The Hunchback of Notre Dame, in release as 1996 ended, will provide a boost to 1997 results. On its opening in Japan, it quickly became the nation's number one-ranked movie.

Ransom, the Mel Gibson thriller, reaches theaters worldwide in January and February, and *101 Dalmatians* is expected to be a big winner. Later in the year BVI will distribute *The Preacher's Wife, Evita, Metro* and *Con Air* before *Hercules* reaches international markets.

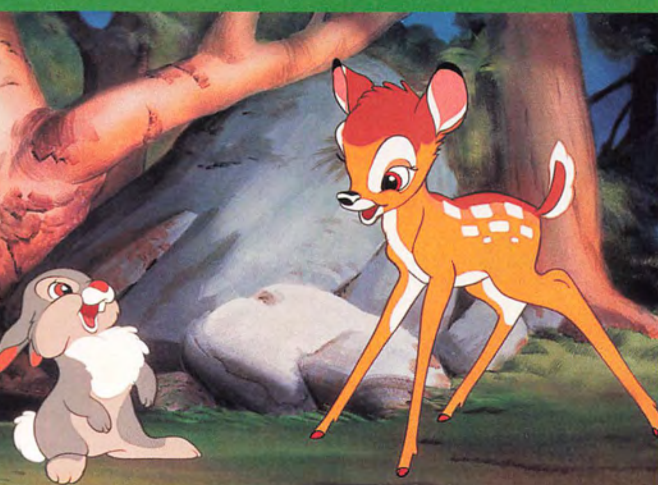
BVI will also release Paul Verhoeven's *Starship Troopers* and Harrison Ford in *AFO* in 1997.

Buena Vista Home Video BVHV North America remains the industry's top-ranked home video company. In the sell-through business alone, it is nearly twice the size of its nearest rival.

More than 100,000 U.S. and Canadian retail outlets sell Buena Vista videocassettes, and several major U.S. retailers have named BVHV their top vendor of the year.

In 1997, titles being released directly to the video market include the first-ever *Winnie the Pooh* movie, a Christmas-themed *Beauty and the Beast* sequel and the company's first live-action, direct-to-video film, *Honey, We Shrunk Ourselves.* Sequels to *The Lion King* and *Pocahontas* also are in production for this thriving market.

Above: *The Little Mermaid* is scheduled for its first re-release over the 1997 Thanksgiving holiday.
Below: Thumper and Bambi return when *Bambi* becomes available on video in February.



Above: Peter Schneider, president, Walt Disney Feature Animation and Walt Disney Theatrical Productions.
Below: A scene from Disney's 35th full-length animated feature, *Hercules*, which will make its debut June 20.

Dangerous Minds, on ABC, features an ensemble cast headed by Annie Potts (center), a teacher who cares.

Tim Allen and Patricia Richardson are parents of three growing boys, (left to right) Jonathan Taylor Thomas, Taran Noah Smith and Zachery Ty Bryan, on *Home Improvement.*

Buena Vista Home Entertainment This distributor of interactive and other home entertainment products internationally is primed to surpass its 1996 record of 85 million units sold — in part due to expanded operations in Mexico, Indonesia, Saudi Arabia and the Czech Republic.

To capitalize on the growing demand for direct-to-video features overseas, BVHE will release the sequels to *Pocahontas, The Hunchback of Notre Dame* and other Disney favorites throughout the remainder of the decade in collaboration with Walt Disney TV Animation.

The Rock and *Ransom* are expected to be among the most-rented videos overseas in the new year. BVHE's acquisition of several live-action and animated titles — including *Die Hard With a Vengeance* — from other studios has solidified its position as the world's preeminent force in international home entertainment.

Walt Disney Television Three new series are on the air as 1997 begins, and two more are ready for midseason debuts, all under the Touchstone and Walt Disney labels.

Homeboys in Outer Space (UPN), *Life's Work* and the hour-long drama *Dangerous Minds* (both ABC) are succeeding in the highly competitive world of prime-time television. *Smart Guy* (WB) and *Social Studies* (UPN) are the newcomers.

Meanwhile, *Home Improvement* (ABC) continues its remarkable run. It ranks number one in its time period and has been consistently among the top 10 shows during its six seasons on the air.

Ellen (ABC) remains a steady performer on Wednesday night. *Unhappily Ever After* and *Brotherly Love* (both WB) are doing well in their time periods, and *Boy Meets World* (ABC) continues to be a favorite with kids and teens on Friday night.

Above: Flex and Darryl M. Bell on UPN's series *Homeboys in Outer Space.* Right: Direct-to-video production of *Honey, We Shrunk Ourselves.*

Walt Disney Television Animation The 1996–97 season is easily the busiest in Disney TV animation history. Production is up from 103 half-hour programs to almost 250 in a year's time.

Ten series are in various stages of active production. By fall, *101 Dalmatians*, *Recess* and *Pepper Ann* will reach the small screen.

Work also continues on several direct-to-video properties. A *Beauty and the Beast* Christmas story, the *Winnie the Pooh* movie, *The Lion King* sequel *Simba's Pride*, a *Pocahontas* sequel and *Totally Twisted Fairy Tales* are at various stages of completion.

Walt Disney Television Animation now operates three wholly owned production facilities outside the U.S. The studios — in Japan, Australia and Canada — employ almost 600 people.

Walt Disney Theatrical Productions is now under the direction of Peter Schneider and Tom Schumacher. *The Lion King*, one of the most successful animated films of all time, will become a full-scale Broadway musical production in the fall.

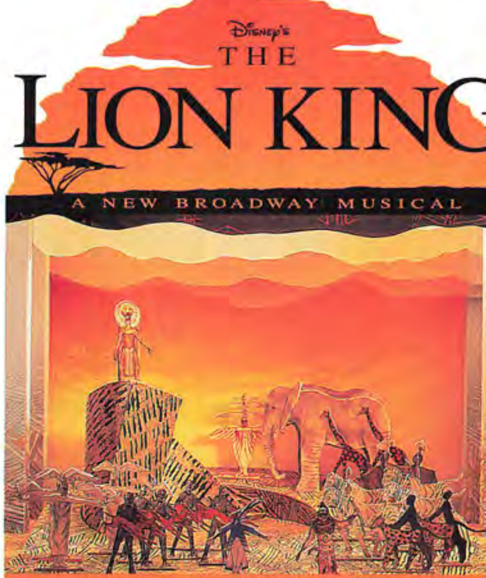
The Academy Award-winning film will come to life on the stage of the newly restored New Amsterdam Theater in New York, under a creative team led by director Julie Taymor. The stage version of *The Lion King* will feature music and lyrics by Elton John and Tim Rice, who won Oscars for their work on the film version. John and Rice have written material not heard in the film for the stage production.

Meanwhile, the theatrical version of *Beauty and the Beast* has actually gained momentum since its acclaimed Broadway opening in 1994. That show is now in its fourth season. Productions in Toronto, Vienna, Tokyo, Osaka and Sydney, as well as the U.S. national tour, have been going strong since 1995.

For its grand reopening, Disney's New Amsterdam Theater on 42nd Street will present a world premiere concert event, *Alan Menken and Tim Rice's King David*. A powerful story of the shepherd boy who became King of Israel, the concert will have a limited run in the spring.

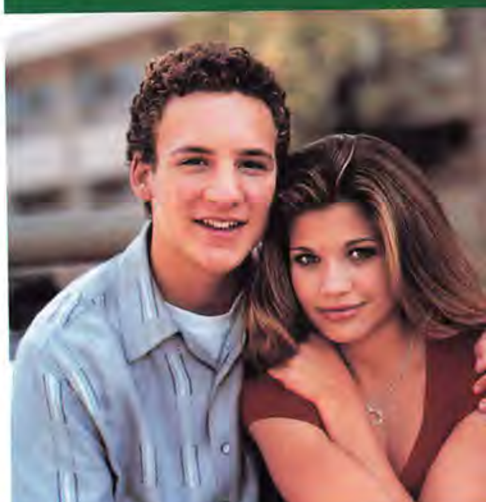
Hollywood Records The slate for 1997 looks promising. Hollywood Records will release music by Alice Cooper, Flipp and Leftover Salmon, among others.

The label has signed Idina Menzel, a high-profile mainstream artist from the hit Broadway show *Rent*, and will release an album later this year. The company also plans to launch a new Nashville-based label as a first step into the popular country music field.



A theatrical production of *The Lion King* will premiere in the fall at the New Amsterdam Theater, New York.

The first production at the restored New Amsterdam Theater is a concert event — *Alan Menken and Tim Rice's King David*.



Ben Savage and Danielle Fishel star in *Boy Meets World*, produced for ABC by Walt Disney Television.

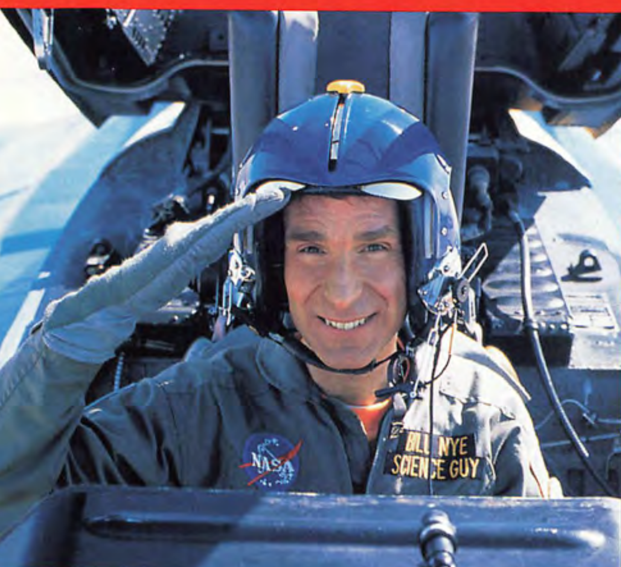
Broadcasting

Nineteen ninety-six was a year of anticipation and consolidation as Capital Cities/ABC shortened its name to ABC, Inc., and became an operating unit of Disney Enterprises, Inc. The year also marked the operational transfer to ABC of three Disney units — The Disney Channel, Buena Vista Television and Disney Television International.

Above: The ABC News anchor team which started the 1996–97 season included (left to right) Sam Donaldson, Diane Sawyer, David Brinkley (since retired), Peter Jennings, Ted Koppel, Barbara Walters and Hugh Downs.

After nine years, Regis Philbin and Kathie Lee Gifford are still daytime's favorite duo on Buena Vista Television's *Live! With Regis & Kathie Lee.* Above they celebrate Walt Disney World's 25th anniversary with guest First Lady Hillary Clinton.

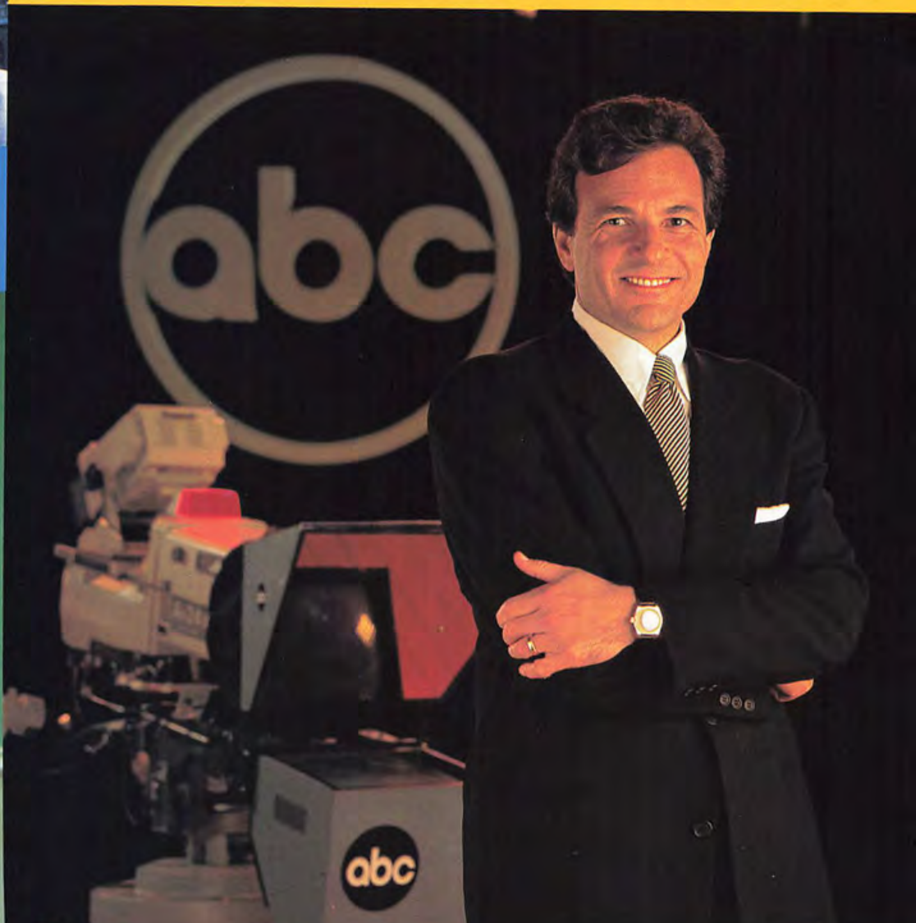
A third ESPN channel, ESPNews, was launched in the fall. Above: Anchors Michael Kim and Chris McKendry.



Below: Michael J. Fox stars in *Spin City*, one of the prime time hits of the new television season. His show has helped ABC capture top network ratings on Tuesday nights.

Above: Touchstone Television's *Home Improvement* continues as one of ABC's and America's top 10 series.

Left: Science rules when *Disney Presents Bill Nye, the Science Guy,* Buena Vista Television's Emmy Award-winning syndicated series for kids of all ages starring "stand-up scientist" Bill Nye.



Robert A. Iger, president, ABC, Inc.

Above: One of the big winners of the ABC season is Drew Carey, star of the network's *The Drew Carey Show.* Drew is shown here with co-star Kathy Kinney, who plays Mimi on the show.

Above: Gary Sinese won a Cable ACE Award for his portrayal of President Harry S Truman in the A&E Cable Network's *Truman.*

Above, top: Scene from *Relativity,* starring Kimberly Williams and Leo Roth.
Above: Wink Martindale is host on the new Buena Vista Television syndicated game show *Debt.*

ABC *Monday Night Football* announcers (left to right) Al Michaels, Frank Gifford and Dan Dierdorf.

ABC Television Network ABC's schedule for the new year is backed by its most extensive marketing and promotion campaign in history. *Monday Night Football* and *Home Improvement* have returned to their accustomed places among the top 10 programs, and the acclaimed new comedy series *Spin City* and *Sabrina, The Teenage Witch* have enjoyed immediate success. New strength was also shown by *The Drew Carey Show.*

The network has mined the rich resources of Walt Disney Television for its Saturday morning children's schedule and now features several hours of Disney-produced programming.

ABC News continues to be the leading U.S. source of TV news, and the network remains strong with female viewers of daytime dramas.

ABC Sports has assured itself continued prominence. It has contracted to televise the national championship college football game beginning in January 1999.

ESPN By New Year's Day, ESPN was reaching nearly 70 million U.S. subscribers, making it the most widely distributed cable programming network in the country. ESPN2, after only three years of operation, is seen in 38 million U.S. homes.

ESPN International is received in 105 million households in 160 countries in 21 languages. All told, ESPN operates 17 separate networks in these countries, including ESPN Dos in northern Latin America.

The group's third U.S. network, ESPNews, made its debut in the fall. In addition, ESPN Asia and Star Sports have formed a joint venture for delivery of sports programming throughout most of Asia.

The Disney Channel The Disney Channel's hybrid subscribership strategy is paying rich dividends. Under this plan, cable affiliates can now offer The Disney Channel as a pay service or include it in an expanded basic package. As a result, subscribership has surpassed 20 million. The channel remains commercial-free.

With a redoubled emphasis on family programming, The Disney Channel expects to continue its dramatic subscriber growth in 1997. A seven-nights-a-week family movie at 7 P.M. leads the way.

National and local marketing campaigns will seek to strengthen the Disney brand identity. A sharp increase in original production, including the addition of a strong lineup of monthly, first-run Disney movies, is designed to help solidify the channel's position as "first choice of families."

A&E Networks A&E enters 1997 with 68 million subscribers. The History Channel has reached 22 million in less than two years of operation.

Oprah Winfrey, long-time star of *The Oprah Winfrey Show*, continues to be number one in daytime talk shows.

Melissa Joan Hart (seated center) lights up ABC's Friday night schedule as *Sabrina, The Teenage Witch.*

Jennifer Ehle and Colin Firth star in A&E's *Pride and Prejudice.*

ABC's Publishing Group, including its daily newspapers and consumer magazines, continued to increase its circulation in 1996.

This year A&E will seek more international viewership while increasing the production of original dramas and specials. The History Channel also will expand, creating international versions in several markets.

Lifetime Television Lifetime, coming off the best ratings year in its history, now reaches 66 million subscribers with its original movies, specials, prime-time signature shows and unique daytime blocks.

The channel will strengthen its emphasis on "television for women" in 1997, developing added programming for a female audience aged 18-34 as a foundation for a proposed second network.

Disney/ABC International Television Together, Walt Disney Television International and ABC International form a powerful distribution operation. The group is now integrating the broadcast, cable and sales activities of ABC with the free and pay TV distribution, production and broadcast organization of WDTI.

In 1997 it will launch The Disney Channel in France and the Middle East. Further expansion — in 1998 and beyond — is expected in Germany, Latin America and other key markets.

Buena Vista Television With *Ellen* and its new game show, *Debt,* licensed to Lifetime, and *Home Improvement* thriving in national syndication, Buena Vista Television starts the new year with special emphasis on the Disney-Kellogg's alliance in children's animation programming. This two-hour Monday-to-Friday block will be distributed in more than 80 percent of the country.

Buena Vista also will distribute *Boy Meets World,* a half-hour comedy, and Buena Vista III, a 105-movie package that is the largest in the history of syndication.

Honey, I Shrunk the Kids, a weekly one-hour comedy/adventure series, is under production for the fall season. The 22-episode series is based on the original 1989 film, which grossed more than $130 million at the domestic box office.

Basketball's John Salley, one of the Detroit Pistons' original "Bad Boys" and a member of three NBA championship teams, will become late night's newest star beginning in June. That's when Buena Vista Television launches *The John Salley Show,* a weekly one-hour entertainment event in syndication.

Brand Spanking New Doug, the season's number one children's program on ABC Saturday morning, is produced by Jumbo Pictures, Inc., a boutique animation producer acquired by The Walt Disney

The Mighty Ducks do double duty on The Disney Afternoon as well as Saturday mornings on ABC.

Company last March. Jumbo is currently in production on a new animated series, *101 Dalmatians,* which will premiere in the fall on ABC and in syndication.

Buena Vista continues to syndicate the long-popular *Siskel & Ebert, Disney Presents Bill Nye, the Science Guy, Disney's Sing Me a Story With Belle* and *Live! With Regis & Kathie Lee.*

ABC-Owned Television Stations The television stations group — 10 outlets reaching almost one-fourth of the nation's households — expects to improve its ratings in 1997 with renewed emphasis on local news and syndicated programming. Two successful talk shows, *The Rosie O'Donnell Show* in eight major markets and *Oprah* in seven, underpin the daytime schedule.

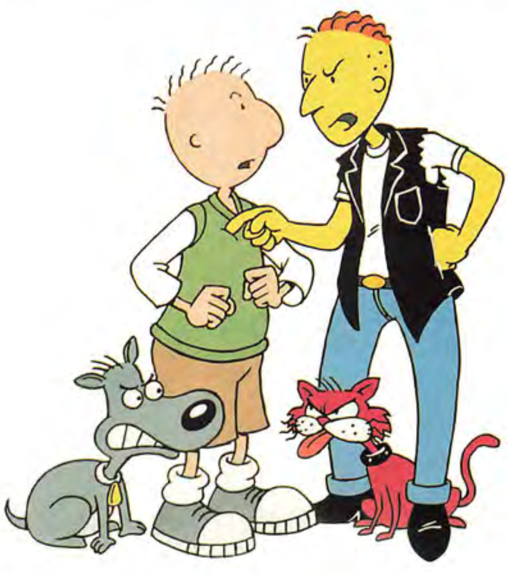
Radio Operations Radio Operations entered 1997 with record revenues and profits. The stations reach more than 13 million people weekly in the 20 U.S. markets most highly valued by advertisers.

Meanwhile, the radio networks now serve more than 122 million people a week over some 2,900 stations through more than 7,600 program affiliations. This year the network is exploring the start-up of a 24-hour children's service, *Radio Disney.*

Publishing In the wake of record-setting revenues and operating income in 1996, the Publishing Group expects to continue its earnings growth and new-product development this year.

In an era of declining readership nationally, ABC's daily newspapers and consumer magazines continue to increase their circulation, and results at the 50 trade publications are favorable. *W* magazine, one of the country's most successful fashion publications, is already exceeding records set in 1996 for advertising pages and circulation.

Saturday morning kids shows include (above) Walt Disney Television Animation's *Gargoyles* and (below) Jungle Book characters in their early years as *Jungle Cubs.*



Left: 12-year-old Doug Funnie and his dog, Porkchop, have made *Brand Spanking New Doug* the number-one series on ABC Saturday morning.

Consumer Products

An eventful 1996 sparkled with success for Consumer Products, from the new popularity of Winnie the Pooh to 101 Disney Store openings worldwide, and 1997 should be even better.

Disney's major summer animated feature, *Hercules,* is already showing signs of strength among licensees as they prepare action figures, Megara fashion dolls and Grecian-styled apparel.

Promotions at retailers will jump-start the campaign. Walt Disney Records will present the *Hercules* sound track by

The Disney family of U.S. magazines includes *Disney, Disney Adventures, Family Fun, Family PC* and *Discover.*

Above: Consumer Products offers a formidable array of toys to support the video release of *Toy Story.*
Below: "Pain" and "Panic" are dolls based on characters from *Hercules,* coming in June.

Above: Interior of the new Disney megastore, which opened in June on Fifth Avenue, New York. Below: Child models outfit supplied by The Disney Store.

Barton K. Boyd, president, Disney Consumer Products.

Classic merchandise featuring Winnie the Pooh is one reason for the renewed popularity of the world's friendliest bear.

Goosebumps audio stories from Walt Disney Records have been frightfully successful with kids.

eight-time Academy Award® winner Alan Menken and lyricist David Zippel.

Disney Publishing will create a book and magazine program of herculean proportions with everything from comics, magazine cover stories and coloring books to studies of the film's art and novelizations of the story. Disney Interactive plans several products for home computers based on the movie.

The momentum for *101 Dalmatians* is expected to continue throughout the year as retailers and consumers enjoy the newfound popularity of this live-action version of the Disney classic. New creative treatments for the lovable pups will appear during the year, including a line of Puppy Love products for Valentine's Day.

Winnie the Pooh will promote the Year of Friendship. Its focus, National Friendship Day, will be celebrated with special events at Walt Disney World August 4. A new, adult Pooh brand of merchandise for the mass market also is planned.

The fun continues in Tokyo, where "The World of Winnie the Pooh" will open this summer for a month-long retail-entertainment special event. Guests will enjoy an exhibition of E.H. Shepard's original drawings, Pooh-themed games, a video theater and merchandise in special retail corners.

In the fall, Disney will introduce an entirely new line of licensed products tied to ABC. The products include items for ABC soaps, ABC sports programming and the ESPN cable network.

The fourth annual Children's Summit will be held June 9–12 at Disneyland Paris. Co-sponsored by UNESCO and the Disney Magazine Group in Europe, the summit will bring to the park some 650 youngsters from 40 countries.

For four days they will discuss topics related to the theme of "society." Through UNESCO, the children will release their Charter for Society, drafted at the event, to countries around the world.

The 1997 "hit list" from Disney's Hyperion Books imprint includes *Nickel Dreams,* the autobiography of

Disney's worldwide array of publications includes new adult and general titles, such as *Top Famille,* a family magazine introduced in France in 1996.

country music star Tanya Tucker. Another sure-fire best-seller: *Pouring My Heart Into It,* a highly entertaining business book by Howard Schultz, founder and CEO of the Starbucks coffee chain.

Discover magazine's eighth annual Discover Awards ceremony will be held at Epcot in June. During the year, *Discover* will present special issues on "Space" and "Why We Do What We Do (Brains, Genes and Behavior)."

Disney Interactive Since its formation in late 1994, Disney Interactive has become a leading producer of family-oriented interactive entertainment and educational materials, including CD-ROMs and online products.

In the past two years, Disney Interactive's market share has increased to 15 percent of the education category on the strength of such hit titles as *The Lion King Activity Center* and the *Pocahontas, Winnie the Pooh and the Honey Tree* and *Toy Story* Animated StoryBooks. The company has consistently broken sales records since its launch in 1994 and became the number two publisher of children's education software in the first half of 1996. In May, the *Toy Story* CD-ROM became the first children's title to outsell software in all categories, including Microsoft Windows '95.

Disney Online, a new group formed to develop The Walt Disney Company's presence on the Internet, launched two web sites in 1996. Disney.com, the company's primary marketing and promotional site, is home to more than a dozen different Disney businesses and ranked as the top entertainment site on the Internet. Family.com, Disney's new parenting service on the web, was launched in late 1996.

Disney Interactive continues to expand worldwide. Offices in Europe, Japan and Latin America have been established to develop Disney's software business internationally. To date, fully localized versions of Disney Interactive computer software have been released throughout Europe, in Japan and in Latin America.

This year, new Disney Interactive titles include a creativity-enhancing *Draw & Paint Studio,* an innovative new game inspired by Disney's *101 Dalmatians* film and a full slate of releases based on Disney's upcoming animated feature, *Hercules.* Disney Online is preparing a new children's service scheduled to begin late this year.

Music In The Park from Walt Disney Records is part of Walt Disney World's 25th anniversary celebration.

Disney Interactive features Walt Disney World in an Explorer CD-ROM and introduces a new quack detective, Maui Mallard.

New place settings lend a Mickey motif to home entertainment.

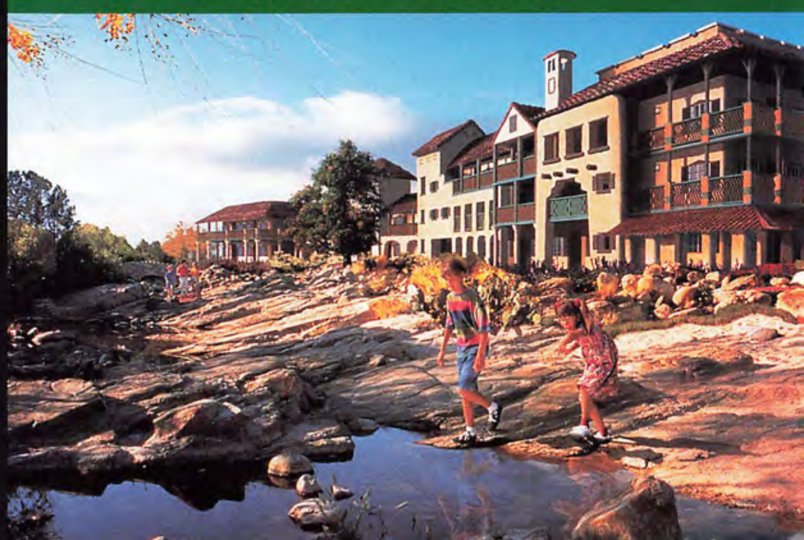
Walt Disney Imagineering

In May, Walt Disney Imagineering officially joined forces with Disney Development Company. The new unit emerged as the planner, creator and developer of all Disney resorts, theme parks and regional entertainment sites.

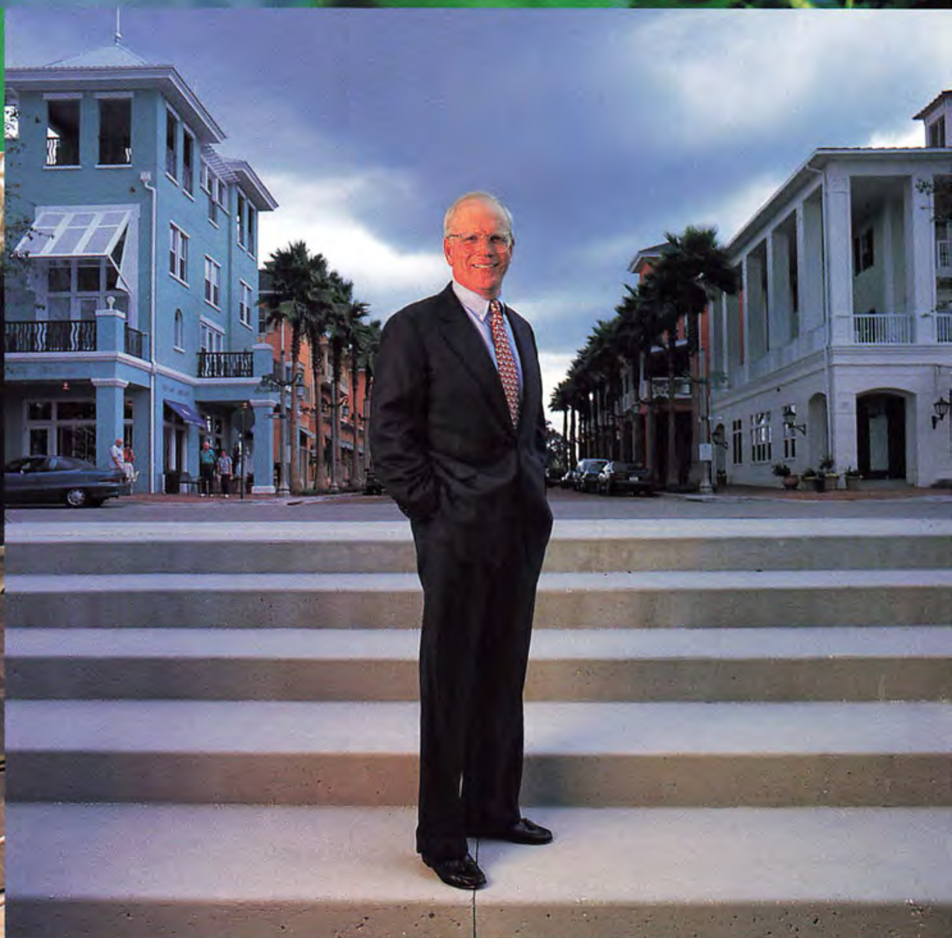
WDI's leading-edge creative, technical and developmental abilities also were utilized during the year by other Disney segments, including The Disney Store, Disney Interactive, theatrical productions, the new Disney Cruise Line and the ABC television network.

Imagineers helped design the interiors of Disney's two new cruise ships, which make their inaugural voyages in 1998.

Above: The all-new town of Celebration, designed and constructed by Imagineering, is slowly getting that lived-in look as residents enjoy their surroundings. Below: An artist's rendering of the Coronado Springs Hotel, scheduled to open in 1997.



Above: The Disney Institute, which opened in February, offers guests a wide variety of classes on various subjects as well as a health spa, concerts and visiting guest artists.

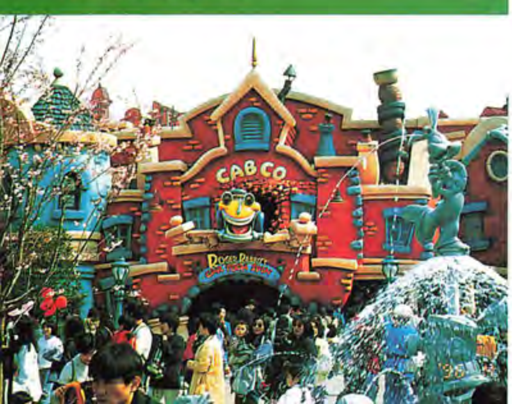


Above: Peter S. Rummell, chairman, Walt Disney Imagineering.

Left: Working with General Motors, Disney Imagineers are helping develop the new Test Track by General Motors scheduled to debut at Epcot this year.

Imagineers developed ***Aladdin's Magic Carpet Virtual Reality*** experience at Walt Disney World.

Two views of the new ToonTown Fair at Walt Disney World. Above: A children's roller coaster developed by Imagineers. Below: A view of the ToonTown Fair plaza.



Though several of its major projects reached completion in 1996 — the opening of the city of Celebration, the Disney Institute, Aladdin's Magic Carpet and Disney's BoardWalk Resort in Florida, the Fifth Avenue Disney Store in New York City and Toontown at Tokyo Disneyland — the future looks even more interesting.

In Florida, the visionary 4,900-acre community of Celebration continues to command the full attention of the Imagineering group known as the Celebration Company. Imagineers have been working with leading thinkers in the health, education, planning and design fields to create a town that combines the latest in technology with a comfortable sense of community.

Celebration is surrounded by a 4,700-acre protected greenbelt. It provides a broad mix of residences, including apartments, townhouses and homes ranging from cottages to estates. Celebration's town center has been designed as a traditional small-town business district skirting a small lake.

The first residents moved in last June. Eventually, Celebration will be home to 20,000 people.

Imagineers also are at the forefront of the expansion of The Disneyland Resort. In addition to its involvement in a second theme park called Disney's California Adventure, WDI is lending its unique magic to plans for the 750-room Grand Californian Hotel. It also is deeply involved with the City of Anaheim and Disneyland in the design of landscaping, roads, parking and transportation services.

At Disney's Animal Kingdom, under construction in Florida, Imagineers are developing a lushly landscaped adventure offering thrilling rides and animal encounters that will entertain and educate guests about creatures great and small — from live animals to mythical beasts and dinosaurs.

WDI also contributed heavily to Test Track by General Motors at Florida's Epcot. This new adventure includes a 65-mile-an-hour "victory lap" outside the building, making Test Track the fastest ride Disney has ever offered.

Imagineers have re-created the textures, colors and art of Mexico and the American Southwest with Disney's Coronado Springs Resort, which will become the first moderately priced convention hotel at Walt Disney World when it opens in 1997. Also in Florida, WDI is hard at work on Disney's Wide World of Sports, a multisport complex that will be the spring training home of the Atlanta Braves beginning in 1998.

Above: At Epcot's Kodak Pavilion it is known as *Honey, I Shrunk the Audience*, but when the show opens at Tokyo Disneyland in 1997, it will be called *Tokyo Disneyland's Micro Adventure!* Below: Martin A. Sklar, vice chairman and principal creative executive, Walt Disney Imagineering.

Above: Imagineering worked with The Disney Store to create the New York, 5th Avenue megastore interiors. Below: Guests at the new ESPN Club at Disney's BoardWalk enjoy interactive games.

Disney Imagineering, an illustrated history of Walt Disney Imagineering, was released to bookstores in the fall.

One of its most unusual undertakings is participation in the start-up of the Disney Cruise Line, set to make its maiden voyage early in 1998 from Port Canaveral, Florida. Imagineering designed and built the 72,000-square-foot terminal, the only such facility for a single line of ships.

At the cruise's stopover in the Bahamas, Imagineers are continuing to develop a seamless Walt Disney World vacation experience. The Disney-owned island of Castaway Cay will be home to a food and beverage pavilion, a mile-long private beach, a special children's activities area, a Bahamian-staffed post office and its own docking complex, the first such stopover dock in the industry.

Equally unusual is WDI's painstaking restoration of the New Amsterdam Theater in New York City. The famous building, nearly 100 years old, was once the site of the city's finest entertainment, including the Ziegfeld Follies.

Above: Another Imagineering product, The Universe of Energy, presented by Exxon.

Above: Kenneth P. Wong, president, Walt Disney Imagineering.
Right: Imagineering is in the process of completing a total overhaul and restoration of the New Amsterdam Theater, which will be the New York home of Disney Theatrical Productions.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

On February 9, 1996, the Company acquired Capital Cities/ABC, Inc. ("ABC"). The Company's results of operations have incorporated ABC's activity since that date. To enhance comparability, certain information below is presented on a "pro forma" basis and reflects the acquisition of ABC as though it had occurred at the beginning of the respective periods presented. The pro forma results are not necessarily indicative of the combined results that would have occurred had the acquisition actually occurred at the beginning of those periods.

Consolidated Results

(in millions, except per share data)

	Pro forma *(unaudited)*		As reported		
	1996	*1995*	**1996**	*1995*	*1994*
Revenues:					
Creative Content	**$10,505**	$ 8,984	**$10,095**	$ 7,736	$ 6,232
Broadcasting	**6,231**	5,964	**4,142**	414	359
Theme Parks & Resorts	**4,502**	4,001	**4,502**	4,001	3,499
Total	**$21,238**	$18,949	**$18,739**	$12,151	$10,090
Operating Income:[1]					
Creative Content	**$ 1,612**	$ 1,618	**$ 1,596**	$ 1,531	$ 1,205
Broadcasting	**1,062**	948	**747**	76	77
Theme Parks & Resorts	**990**	859	**990**	859	690
Accounting Change	**(300)**	—	**(300)**	—	—
Total	**3,364**	3,425	**3,033**	2,466	1,972
Corporate Activities and Other	**(249)**	(255)	**(309)**	(239)	(279)
Net Interest (Expense) Income	**(698)**	(775)	**(438)**	(110)	10
Acquisition-related Costs	**-**	—	**(225)**	—	—
Income Before Income Taxes	**2,417**	2,395	**2,061**	2,117	1,703
Income Taxes	**(1,067)**	(1,069)	**(847)**	(737)	(593)
Net Income	**$ 1,350**	$ 1,326	**$ 1,214**	$ 1,380	$ 1,110
Earnings Per Share	**$ 1.96**	$ 1.94	**$ 1.96**	$ 2.60	$ 2.04
Net Income Excluding Non-recurring Charges[2]	**$ 1,533**	$ 1,326	**$ 1,534**	$ 1,380	$ 1,110
Earnings Per Share Excluding Non-recurring Charges[2]	**$ 2.23**	$ 1.94	**$ 2.48**	$ 2.60	$ 2.04
Amortization of Intangible Assets Included in Operating Income	**$ 457**	$ 457	**$ 301**	$ —	$ —
Average Number of Common and Common Equivalent Shares Outstanding	**689**	685	**619**	530	545
[1]Includes depreciation and amortization (excluding film cost) of:					
Creative Content	**$ 198**	$ 167	**$ 186**	$ 107	$ 80
Broadcasting	**534**	523	**387**	8	7
Theme Parks & Resorts	**358**	335	**358**	335	289
	$ 1,090	$ 1,025	**$ 931**	$ 450	$ 376

[2]During the second quarter of 1996, the Company recorded two non-recurring charges. The Company adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," which resulted in the Company recognizing a $300 million non-cash charge. In addition, the Company recognized a $225 million charge for costs related to the acquisition of ABC. See Notes 2 and 11 to the Consolidated Financial Statements.

As a result of the acquisition, the Company has reconfigured its financial reporting segments into Creative Content, Broadcasting, and Theme Parks and Resorts. Consumer products operations, ABC's publishing operations and filmed entertainment activities not related to broadcasting have been classified as Creative Content. Operations previously reported as Filmed Entertainment that pertain to broadcasting, as well as ABC's broadcasting operations, have been classified as the Broadcasting segment. The Theme Parks and Resorts segment contains the same operations as in prior years.

The following discussion of 1996 versus 1995 performance is primarily based on pro forma results. The Company believes pro forma results represent the best comparative standard for assessing net income, changes in net income and earnings trends, as the pro forma presentation combines a full year of the results of the Company and its acquired ABC operations. The discussion of consolidated results also includes "as reported" comparisons to the extent there have been material changes in reported amounts.

The discussion of Theme Parks and Resorts segment results is on an as reported basis since the pro forma adjustments did not impact this segment.

Consolidated Results

1996 vs. 1995 (pro forma and as reported)
Pro forma results for all periods and as reported results since the acquisition date reflect the impact of the acquisition of ABC, including the use of purchase accounting. Comparisons of as reported results reflect significant increases in amortization of intangible assets, interest expense, the effective income tax rate and shares outstanding arising from the acquisition.

Pro forma revenues increased 12% to $21.2 billion, reflecting growth in all business segments. Net income, excluding non-recurring charges, increased 16% to $1.5 billion, and earnings per share increased 15% to $2.23. These results were driven by increased operating income at the Theme Parks and Resorts and Broadcasting segments.

Pro forma net interest expense decreased 10% to $698 million reflecting lower interest rates and a reduction in net borrowings (the Company's borrowings less cash and liquid investments).

As reported revenues increased 54% to $18.7 billion, reflecting increases in all business segments and the impact of the acquisition of ABC. Net income, excluding the non-recurring charges, increased 11% to $1.5 billion driven by increased operating income for each business segment. Earnings per share, excluding the non-recurring charges, decreased 5% to $2.48, reflecting the impact of additional shares issued in connection with the acquisition.

As reported corporate activities and other increased 29% to $309 million, reflecting higher corporate general and administrative costs and a $55 million gain in the prior year related to the sale of a portion of the Company's investment in Euro Disney.

1995 vs. 1994 (as reported)
Revenues increased 20% or $2.1 billion to $12.2 billion in 1995, reflecting growth in Creative Content, Broadcasting and Theme Parks and Resorts revenues of $1.5 billion, $55 million, and $502 million, respectively.

Operating income rose 25% or $494 million to $2.5 billion in 1995, driven by increases in Creative Content and Theme Parks and Resorts operating income of $326 million and $169 million, respectively. Net income increased 24% to $1.4 billion and earnings per share increased 27% to $2.60 from $1.1 billion and $2.04, respectively.

Corporate activities and other expenses decreased 14% or $40 million to $239 million. The results for 1995 included a gain of $55 million from the sale of approximately 75 million shares, or 20% of the Company's investment in Euro Disney, partially offset by higher corporate general and administrative expenses.

Net interest income decreased $120 million to an expense of $110 million in 1995. The decrease reflected both a decline in interest income driven by lower average investment balances and yields and an increase in interest expense primarily reflecting the impact of higher borrowings. The higher borrowings were due in part to prior-year common stock repurchases and Euro Disney funding, which were initiated in the latter part of 1994.

Business Segment Results

Creative Content

1996 vs. 1995 (pro forma)

Revenues increased 17% or $1.5 billion to $10.5 billion, driven by growth of $500 million in home video, $274 million in theatrical, $197 million in the Disney Stores and $151 million in character merchandise licensing. Home video revenues reflect *Pocahontas*, *Cinderella* and *The Aristocats* animated titles and *The Santa Clause*, *While You Were Sleeping* and *Crimson Tide* live-action titles domestically, as well as *The Lion King* and *101 Dalmatians* internationally. Theatrical revenues reflect the worldwide box office performance of *Toy Story*, *The Rock* and *The Hunchback of Notre Dame*, the international performance of *Pocahontas* and the domestic performance of *Phenomenon*. Revenue growth at the Disney Stores was driven by the opening of 101 new stores in 1996, bringing the total number of stores to 530. Comparable store sales declined 2%, primarily due to the strength of *The Lion King* merchandise in the prior year, and new stores contributed $103 million of sales growth. Merchandise licensing revenues increased due to the strength of standard characters worldwide and the success of targeted marketing programs. Television revenues from program distribution were comparable to the prior year, reflecting the success of live-action titles in pay television, offset by the syndication sale of *Home Improvement* in the prior year.

Operating income remained flat at $1.6 billion, reflecting improved results in home video and worldwide merchandise licensing offset by lower theatrical results. Costs and expenses increased 21% or $1.5 billion. The increase is primarily due to higher theatrical distribution and home video selling costs, higher production cost amortization, expansion of the Disney Stores and the write-off of certain theatrical development projects.

1995 vs. 1994 (as reported)

Revenues increased 24% or $1.5 billion to $7.7 billion in 1995, driven by growth of $605 million in worldwide home video revenues, $340 million in television revenues, $237 million from the Disney Stores, $106 million in worldwide theatrical revenues and $67 million from worldwide character merchandise licensing. Home video revenues reflected the domestic and initial international release of *The Lion King* and the worldwide release of *Snow White and the Seven Dwarfs*. Television revenues grew primarily due to the release of *Home Improvement* in syndication and increased availability and success of titles in pay television. Growth at the Disney Stores was driven by the opening of 105 new stores in 1995, bringing the total number of stores to 429. Comparable store sales grew 4% and sales at new stores contributed $94 million of sales growth. Theatrical revenues reflected the domestic rerelease and expanded international release of *The Lion King*, the domestic release of *Pocahontas* and the domestic release of the live-action titles *The Santa Clause*, *While You Were Sleeping* and *Pulp Fiction*. Worldwide merchandise licensing growth was generated by increased demand for traditional Disney characters and recent animated film properties, principally *The Lion King* and *Pocahontas*.

Operating income increased 27% or $326 million to $1.5 billion in 1995, primarily due to growth in worldwide home video, television, worldwide character merchandise licensing and the Disney Stores. Costs and expenses increased 23% or $1.2 billion, principally due to higher home video marketing and distribution costs reflecting the worldwide release of *Snow White and the Seven Dwarfs* and the domestic release of *The Lion King*, the ongoing expansion and revenue growth of the Disney Stores, higher distribution costs related to theatrical releases and costs associated with the syndication of *Home Improvement*.

Broadcasting

1996 vs. 1995 (pro forma)

Revenues increased 4% or $267 million to $6.2 billion, reflecting a $309 million increase in revenues at ESPN and The Disney Channel, resulting from higher advertising revenues and affiliate fees due primarily to expansion, subscriber growth and improved advertising rates. Revenue increases were partially offset by a $61 million decrease at the television network and stations due to the impact of ratings deterioration and the absence of the Super Bowl in the current period.

Operating income increased 12% or $114 million to $1.1 billion, reflecting decreased costs and

expenses at the television network, revenue increases at ESPN and The Disney Channel and lower program write-offs at KCAL. Costs and expenses increased 3% or $153 million, reflecting increased program rights and production costs driven by growth at ESPN and The Disney Channel internationally, partially offset by significantly decreased program amortization at the television network, primarily attributable to the acquisition, and lower program write-offs at KCAL.

1995 vs. 1994 (as reported)
The results reported in each year were not material, and reflected the Company's broadcasting operations prior to the acquisition of ABC.

Theme Parks and Resorts

1996 vs. 1995
Revenues increased 13% or $501 million to $4.5 billion, reflecting growth of $191 million due to record theme park attendance, $148 million from greater guest spending, and $52 million due to increased occupied rooms, primarily at Florida resorts. Record theme park attendance at both the Walt Disney World Resort and Disneyland Park in 1996 reflected growth in domestic and international tourist visitation. Increased guest spending resulted from higher admission prices, increased sales of food and beverages due to pricing and expanded locations, and higher room rates at hotel and resort properties. The increase in occupied rooms in Florida resulted from higher occupancy and a complete year of operations at Disney's All-Star Music Resort, which opened in phases during 1995. Occupied rooms also increased due to the opening of Disney's BoardWalk Resort in June 1996.

Fiscal 1996 operating income increased 15% or $131 million to $990 million, resulting primarily from higher theme park attendance, increased guest spending and increased occupied rooms at Florida resorts. Costs and expenses, which consist principally of labor, costs of merchandise, food and beverages sold, depreciation, repairs and maintenance, entertainment and marketing and sales expenses, increased 12% or $370 million, primarily due to increased operating hours in response to higher attendance, expansion of theme park attractions and resorts, increased marketing and sales expenses and increased costs associated with higher guest spending and increased occupied rooms.

1995 vs. 1994
Revenues increased 14% or $502 million to $4.0 billion, driven by growth of $288 million from higher theme park attendance in Florida and California and $127 million from an increase in occupied rooms at Florida resorts. Higher theme park attendance reflected increased domestic and international tourist visitation. The increase in occupied rooms reflected the openings of Disney's Wilderness Lodge and Disney's All-Star Sports Resort in the third quarter of 1994 and the phased opening of Disney's All-Star Music Resort during 1995.

Operating income increased 24% or $169 million to $859 million in 1995, driven by higher theme park attendance and increased occupied rooms at Florida resorts. Costs and expenses increased 12% or $333 million, primarily due to increased attendance and occupied rooms, expansion of theme park attractions and Florida resorts and increased marketing and sales expenses, partially offset by the impact of ongoing cost reduction initiatives.

Liquidity and Capital Resources

The Company generates significant cash from operations and has substantial borrowing capacity to meet its operating and discretionary spending requirements. Cash provided by operations increased 32% or $1.1 billion to $4.6 billion in 1996, which includes the impact of the acquisition of ABC discussed below.

Net borrowings increased $10.6 billion to $12.0 billion during fiscal 1996. The increase was primarily due to an increase in debt in connection with the acquisition of ABC.

In 1996, the Company invested $3.7 billion to develop, produce and acquire rights to film and television properties and $1.7 billion to design and develop new theme park attractions, resort properties, real estate developments and other properties. 1995 investments totaled $1.9 billion and $896 million, respectively.

The $1.8 billion increased investment in film and television properties was primarily driven by ABC's television spending subsequent to the acquisition. Television expenditures in 1997 will be higher as they will reflect a full year of ABC's operations.

The $849 million increased investment in theme parks, resorts and other properties resulted from initiatives including Disney's Animal Kingdom, Disney Cruise Line, Disney's BoardWalk Resort, Disney's

Coronado Springs Resort, Disney's Wide World of Sports, and the town of Celebration. Continued spending increases related to these projects and from development of additional initiatives, including Disney's California Adventure and Downtown Disney, are anticipated through 1997.

The Company repurchased 8 million shares of its common stock for approximately $462 million in 1996. Under its share repurchase program, the Company is authorized to purchase up to an additional 96 million shares. The Company evaluates share repurchase decisions on an ongoing basis, taking into account borrowing capacity, management's target capital structure, and other investment opportunities. The Company also used $271 million to fund dividend payments during the year.

During the second quarter of 1996, the Company completed its acquisition of ABC. Aggregate consideration paid to ABC shareholders in March 1996 consisted of $10.1 billion in cash and 155 million shares of Company common stock. The Company initially funded the cash portion through the issuance of approximately $8.8 billion of commercial paper and the use of existing cash and investments. At acquisition, the Company assumed $627 million of ABC's long-term debt.

Since the acquisition of ABC, the Company has replaced a portion of its commercial paper with longer-term financing, and expects to continue this process in the future. In the United States, the Company has issued $275 million of medium-term notes maturing in two to fifteen years, and in the global bond market, the Company has issued $1.3 billion of five year notes and $1.3 billion of ten year notes. In Europe, the Company has issued 300 billion Italian lira (approximately $190 million) of four year notes, and borrowed £335 million (approximately $520 million) through a private offering. In the Japanese market, the Company issued ¥150 billion (approximately $1.4 billion) of three-year bonds through two public offerings. The Company has swapped the interest payable on the foreign denominated borrowings into United States dollar LIBOR.

The Company employes a variety of on-and off-balance-sheet financial instruments to manage its exposure to changes in interest rates and fluctuations in the value of foreign currencies. The Company does not expect interest rate movements or fluctuations in the value of foreign currencies to significantly affect its liquidity in the foreseeable future. For 1996 and 1995, a 1% increase or decrease in interest rates would not have had a material impact on the Company's liquidity or operating results.

The Company currently maintains significant borrowing capacity to take advantage of growth and investment opportunities. The Company focuses on net borrowings, which take into account its cash and investment balances, when monitoring borrowing capacity. The Company's borrowing capacity includes a $5 billion line of credit which is available for general corporate purposes and to support commercial paper issuance. The Company has the capacity to issue up to $2.1 billion in additional debt under a U.S. shelf registration filed in March 1996, and $1.2 billion under a Euro Medium-Term Note Program established in June 1996.

The Company sold its Los Angeles television station KCAL in November 1996 for $387 million in cash.

The Company's financial condition remains strong. The Company believes that its cash, other liquid assets, operating cash flows and access to capital markets taken together provide adequate resources to fund ongoing operating requirements and future capital expenditures related to the expansion of existing businesses and development of new projects.

Consolidated Statements of Income

(In millions, except per share data)

Year ended September 30	**1996**	*1995*	*1994*
Revenues	**$18,739**	$12,151	$10,090
Costs and Expenses	**(15,406)**	(9,685)	(8,118)
Accounting Change	**(300)**	–	–
Operating Income	**3,033**	2,466	1,972
Corporate Activities and Other	**(309)**	(239)	(279)
Interest Expense	**(479)**	(178)	(120)
Investment and Interest Income	**41**	68	130
Acquisition-related Costs	**(225)**	–	–
Income Before Income Taxes	**2,061**	2,117	1,703
Income Taxes	**(847)**	(737)	(593)
Net Income	**$ 1,214**	$ 1,380	$ 1,110
Earnings Per Share	**$ 1.96**	$ 2.60	$ 2.04
Average number of common and common equivalent shares outstanding	**619**	530	545

See Notes to Consolidated Financial Statements

Consolidated Balance Sheets

(In millions)

September 30	**1996**	*1995*
Assets		
Cash and cash equivalents	**$ 278**	$ 1,077
Investments	**454**	866
Receivables	**3,343**	1,793
Inventories	**951**	824
Film and television costs	**3,912**	2,099
Theme parks, resorts and other property, at cost		
Attractions, buildings and equipment	**11,019**	8,340
Accumulated depreciation	**(4,448)**	(3,039)
	6,571	5,301
Projects in process	**1,342**	778
Land	**118**	111
	8,031	6,190
Intangible assets, net	**17,978**	–
Other assets	**2,359**	1,757
	$37,306	$14,606
Liabilities and Stockholders' Equity		
Accounts payable and other accrued liabilities	**$ 6,374**	$ 2,843
Income taxes payable	**582**	200
Borrowings	**12,342**	2,984
Unearned royalty and other advances	**1,179**	861
Deferred income taxes	**743**	1,067
Stockholders' equity		
Preferred stock, $.01 par value; $.10 at September 30, 1995		
Authorized - 100 million shares		
Issued - none		
Common stock, $.01 par value; $.025 at September 30, 1995		
Authorized - 1.2 billion shares		
Issued - 682 million shares and 575 million shares	**8,576**	1,226
Retained earnings	**7,933**	6,990
Cumulative translation and other adjustments	**39**	38
	16,548	8,254
Less treasury stock, at cost, 8 million shares and 51 million shares	**(462)**	(1,603)
	16,086	6,651
	$37,306	$14,606

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

(In millions)

Year ended September 30	**1996**	*1995*	*1994*
Net Income	**$ 1,214**	$1,380	$1,110
Charges to Income Not Requiring Cash Outlays			
Amortization of film and television costs	**2,966**	1,383	1,199
Depreciation	**677**	470	410
Amortization of intangible assets	**301**	—	—
Accounting change	**300**	—	—
Other	**22**	133	231
Changes In (including the impact of the ABC acquisition)			
Investments in trading securities	**85**	1	—
Receivables	**(426)**	(122)	(280)
Inventories	**(95)**	(156)	(59)
Other assets	**(160)**	(288)	(81)
Accounts and taxes payable and accrued liabilities	**(455)**	415	136
Unearned royalty and other advances	**274**	161	(141)
Deferred income taxes	**(78)**	133	283
	3,411	2,130	1,698
Cash Provided by Operations	**4,625**	3,510	2,808
Investing Activities			
Acquisition of ABC, net of cash acquired	**(8,432)**	—	—
Film and television costs	**(3,678)**	(1,886)	(1,434)
Investments in theme parks, resorts and other property	**(1,745)**	(896)	(1,026)
Purchases of marketable securities	**(18)**	(1,033)	(953)
Proceeds from sales of marketable securities	**409**	1,460	1,494
Other	**—**	67	(968)
	(13,464)	(2,288)	(2,887)
Financing Activities			
Borrowings	**13,560**	786	1,866
Reduction of borrowings	**(4,872)**	(772)	(1,315)
Repurchases of common stock	**(462)**	(349)	(571)
Dividends	**(271)**	(180)	(153)
Exercise of stock options and other	**85**	183	76
	8,040	(332)	(97)
Increase (Decrease) in Cash and Cash Equivalents	**(799)**	890	(176)
Cash and Cash Equivalents, Beginning of Period	**1,077**	187	363
Cash and Cash Equivalents, End of Period	**$ 278**	$1,077	$ 187
Supplemental disclosure of cash flow information:			
Interest paid	**$ 379**	$ 123	$ 99
Income taxes paid	**$ 689**	$ 557	$ 320

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

(Tabular dollars in millions, except per share amounts)

Note 1: Description of the Business and Summary of Significant Accounting Policies The Walt Disney Company, together with its subsidiaries (the "Company"), is a diversified international entertainment organization. As discussed in Note 2, the Company acquired Capital Cities/ABC, Inc. ("ABC") on February 9, 1996. As a result of the acquisition, the Company has reconfigured its financial reporting segments into Creative Content, Broadcasting and Theme Parks and Resorts. Consumer products operations, ABC's publishing operations and filmed entertainment activities not related to broadcasting have been classified as Creative Content. Operations previously reported as Filmed Entertainment that pertain to broadcasting, as well as ABC's broadcasting operations, have been classified as the Broadcasting segment. The Theme Parks and Resorts segment contains the same operations as in prior years. The Company's business segments are described below.

Creative Content

The Company produces and acquires live-action and animated motion pictures for distribution to the theatrical, home video and television markets. The Company also produces original television programming for the network and first-run syndication markets. The Company distributes its filmed product through its own distribution and marketing companies in the United States and most foreign markets.

The Company licenses the name "Walt Disney," as well as the Company's characters, visual and literary properties and songs and music, to various consumer manufacturers, retailers, show promoters and publishers throughout the world. The Company also engages in direct retail distribution principally through the Disney Stores, and produces books and magazines for the general public in the United States and Europe. In addition, the Company produces audio products for all markets, as well as film, video and computer software products for the educational marketplace.

The Company also publishes newspapers, technical and specialty publications and provides research and database services, primarily for markets in the United States.

Broadcasting

The Company operates the ABC Television Network which has primary and secondary affiliated stations providing coverage to U.S. television households.

The Company also owns television and radio stations affiliated with the ABC Television Network and the ABC Radio Networks. The Company's Cable and International Broadcast operations include domestic, European, Taiwanese, Japanese and Australian operations, and are principally involved in the production and distribution of cable television programming, the licensing of programming to domestic and international markets and investing in joint ventures in foreign-based television operations and television production and distribution entities. The primary domestic cable programming services, which operate through joint ventures, are ESPN, the A&E Television Network and Lifetime Television. The Company provides programming for and operates The Disney Channel, a television programming service.

Theme Parks and Resorts

The Company operates the Walt Disney World Resort® in Florida, and Disneyland Park®, the Disneyland Hotel and the Disneyland Pacific Hotel in California. The Walt Disney World Resort includes the Magic Kingdom, Epcot and the Disney-MGM Studios Theme Park, twelve resort hotels and a complex of villas and suites, a nighttime entertainment complex, a shopping village, conference centers, campgrounds, golf courses, water parks and other recreational facilities. The Company earns royalties on revenues generated by the Tokyo Disneyland® theme park near Tokyo, Japan, which is owned and operated by an unrelated Japanese corporation. The Company also has an investment in Euro Disney S.C.A. ("Euro Disney"), a publicly held French corporation that operates Disneyland Paris. The Company's Walt Disney Imagineering unit designs and develops new theme park concepts and attractions, as well as resort properties. The Company also manages and markets vacation ownership interests in the Disney Vacation Club. Included in Theme Parks and Resorts are the Company's National Hockey League franchise, the Mighty Ducks of Anaheim, and its ownership interest in the Anaheim Angels, a Major League Baseball team.

Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements of the Company include the accounts of The Walt Disney

Company and its subsidiaries after elimination of intercompany accounts and transactions. Investments in unconsolidated affiliated companies are accounted for using the equity method, and are classified in the consolidated balance sheets as "Other assets." The Company's share of earnings or losses in its equity investments is shown under "Corporate activities and other" in the consolidated statements of income.

Accounting Changes

During the second quarter of 1996, the Company adopted SFAS 121 *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of ("SFAS 121")* (see Note 11). Long-lived assets to be held and used are recorded at cost. Management reviews long-lived assets and the related intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted net cash flows of the operation to which the assets relate, to the carrying amount including associated intangible assets of such operation. If the operation is determined to be unable to recover the carrying amount of its assets, then intangible assets are written down first, followed by the other long-lived assets of the operation, to fair value. Fair value is determined based on discounted cash flows or appraised values, depending upon the nature of the assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes thereto. Actual results could differ from those estimates.

Revenue Recognition

Revenues from the theatrical distribution of motion pictures are recognized when motion pictures are exhibited. Revenues from video sales are recognized on the date that video units are made widely available for sale by retailers. Revenues from the licensing of feature films and television programming are recorded when the material is available for telecasting by the licensee and when certain other conditions are met.

Broadcast advertising revenues are recognized when commercials are aired. Revenues from television subscription services related to the Company's primary cable programming services are recognized as services are provided.

Revenues from participants and sponsors at the theme parks are generally recorded over the period of the applicable agreements commencing with the opening of the related attraction.

Cash, Cash Equivalents and Investments

Cash and cash equivalents consist of cash on hand and marketable securities with original maturities of three months or less.

Debt and equity securities are classified into one of three categories. Debt securities that the Company has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and reported at amortized cost. Debt securities not classified as held-to-maturity and marketable equity securities are classified as either "trading" or "available-for-sale," and are recorded at fair value with unrealized gains and losses included in earnings or stockholders' equity, respectively.

Inventories

Carrying amounts of merchandise, materials and supplies inventories are generally determined on a moving average cost basis and are stated at the lower of cost or market.

Film and Television Costs

Film and television production and participation costs are expensed based on the ratio of the current period's gross revenues to estimated total gross revenues from all sources on an individual production basis. Estimates of total gross revenues can change significantly due to the level of market acceptance of film and television products. Accordingly, revenue estimates are reviewed periodically and amortization is adjusted. Such adjustments could have a material effect on results of operations in future periods.

Television broadcast program licenses and rights and related liabilities are recorded when the license period begins and the program is available for use. Television network and station rights for theatrical movies and other long-form programming are charged to expense primarily on accelerated bases related to the usage of the program. Television

network series costs and multi-year sports rights are charged to expense based on the flow of anticipated revenue.

Theme Parks, Resorts and Other Property
Theme parks, resorts and other property are carried at cost. Depreciation is computed on the straight-line method based upon estimated useful lives ranging from three to fifty years.

Intangible/Other Assets
Rights to the name, likeness and portrait of Walt Disney and other intangible assets are amortized over periods ranging from two to forty years.

The Company continually reviews the recoverability of the carrying value of these assets using the methodology prescribed by SFAS 121.

Risk Management Contracts
In the normal course of business, the Company employs a variety of off-balance-sheet financial instruments to manage its exposure to fluctuations in interest and foreign currency exchange rates, including interest rate and cross-currency swap agreements, forward and option contracts, and interest rate exchange-traded futures. The Company designates interest rate and cross-currency swaps as hedges of investments and debt, and accrues the differential to be paid or received under the agreements as interest rates change over the lives of the contracts. Differences paid or received on swap agreements are recognized as adjustments to interest income or expense over the life of the swaps, thereby adjusting the effective interest rate on the underlying investment or obligation. Gains and losses on the termination of swap agreements, prior to their original maturity, are deferred and amortized to interest income or expense over the remaining term of the underlying hedged transactions. Gains and losses arising from interest rate futures, forward and option contracts, and foreign currency forward and option contracts are recognized in income or expense as offsets of gains and losses resulting from the underlying hedged transactions.

Cash flows from interest rate and foreign exchange risk management activities are classified in the same category as the cash flows from the related investment, borrowing or foreign exchange activity.

The Company classifies its derivative financial instruments as held or issued for purposes other than trading.

Earnings Per Share
Earnings per share amounts are based upon the weighted average number of common and common equivalent shares outstanding during the year. Common equivalent shares are excluded from the computation in periods in which they have an anti-dilutive effect.

Reclassifications
Certain reclassifications have been made in the 1995 and 1994 financial statements to conform to the 1996 presentation.

Note 2: Acquisition On February 9, 1996, the Company completed its acquisition of ABC. Pursuant to the acquisition, aggregate consideration paid to ABC shareholders consisted of $10.1 billion in cash and 155 million shares of Company common stock valued at $8.8 billion based on the stock price as of the date the transaction was announced.

The acquisition has been accounted for as a purchase and the acquisition cost of $18.9 billion has been allocated to the assets acquired and liabilities assumed based on estimates of their respective fair values. Assets acquired totaled $4.8 billion (of which $1.5 billion was cash) and liabilities assumed were $4.4 billion. A total of $18.3 billion, representing the excess of acquisition cost over the fair value of ABC's net tangible assets, has been allocated to intangible assets and is being amortized over forty years.

In connection with the acquisition, all common shares of the Company outstanding immediately prior to the effective date of the acquisition were canceled and replaced with new common shares and all treasury shares were canceled and retired.

The Company's consolidated results of operations have incorporated ABC's activity from the effective date of the acquisition. The unaudited pro forma information below presents combined results of operations as if the acquisition had occurred at the beginning of the respective periods presented. The

unaudited pro forma information is not necessarily indicative of the results of operations of the combined company had the acquisition occurred at the beginning of the periods presented, nor is it necessarily indicative of future results.

(in millions, except per share data)	Period Ended September 30, 1996	1995
Revenues	**$21,238**	$18,949
Net income[1]	**1,350**	1,326
Earnings per share[1]	**1.96**	1.94

[1]*The 1996 period includes the impact of a $300 million non-cash charge related to the initial adoption of a new accounting standard (see Note 11). The charge reduced earnings per share by $0.27 for the period.*

In addition, during the second quarter, the Company recognized a $225 million charge for costs related to the acquisition, which are not included in the above pro forma amounts. Acquisition-related costs consist principally of interest costs related to imputed interest for the period from the effective date of the acquisition until March 14, 1996, the date that cash and stock consideration was issued to ABC shareholders.

The Company entered into an agreement to sell its independent Los Angeles television station as a result of the ABC acquisition. The sale of KCAL-TV for $387 million was completed on November 22, 1996, resulting in a gain of approximately $135 million which will be recognized in 1997's income statement.

Note 3: Investment in Euro Disney Euro Disney operates the Disneyland Paris theme park and resort complex on a 4,800-acre site near Paris, France. The Company accounts for its 39% ownership interest in Euro Disney using the equity method of accounting. As of September 30, 1996, the Company's recorded investment in Euro Disney was $430 million. The quoted market value of the Company's Euro Disney shares at September 30, 1996 was approximately $634 million.

During fiscal year 1994, the Company entered into restructuring agreements with Euro Disney and the lenders participating in a financial restructuring for Euro Disney (the "Lenders") to provide certain debt, equity and lease financing to Euro Disney. In addition, the Company agreed to cancel certain fully-reserved receivables and waive royalties and base management fees for a period of five years and reduce such amounts for a specified period thereafter.

As part of the overall restructuring, the Lenders served as underwriters for 51% of the Euro Disney rights offering, agreed to forgive certain interest charges of Euro Disney, having a present value of approximately $300 million, and deferred all principal payments until three years later than originally scheduled. Pursuant to the terms of the restructuring, interest charges will continue to progressively increase through fiscal year 2003, although substantially all of the interest will have been reinstated by the end of fiscal year 1998. Additionally, Euro Disney will begin paying royalties and management fees commencing in fiscal year 1999.

Also as part of the restructuring, the Company agreed to arrange for the provision of a 10-year unsecured standby credit facility of approximately $210 million, upon request, bearing interest at PIBOR. As of September 30, 1996, Euro Disney had not requested the Company to establish this facility. The Company also agreed, as long as any obligations to the Lenders are outstanding, to maintain ownership of at least 34% of the outstanding common stock of Euro Disney until June 1999, at least 25% for the subsequent five years and at least 16.67% for an additional term thereafter.

In connection with the restructuring, Euro Disney Associés S.N.C. ("Disney SNC"), a wholly-owned affiliate of the Company, entered into a lease arrangement with a noncancelable term of 12 years (the "Lease") related to substantially all of the Disneyland Paris theme park assets, and then entered into a 12-year sublease agreement (the "Sublease") with Euro Disney. Remaining lease rentals at September 30, 1996 of FF 9.8 billion ($1.9 billion) receivable from Euro Disney under the Sublease approximate the amounts payable by Disney SNC under the Lease. At the conclusion of the Sublease term, Euro Disney will have the option to assume Disney SNC's rights and obligations under the Lease. If Euro Disney does not exercise its option, Disney SNC may purchase the assets, continue to lease the assets or elect to terminate the Lease, in which case Disney SNC would make a termination payment to the lessor equal to 75% of the lessor's then outstanding debt related to the theme park assets, estimated to be $1.5 billion; Disney SNC could then sell or lease the assets on behalf of the lessor to satisfy the remaining debt, with any excess proceeds payable to Disney SNC.

Euro Disney's consolidated financial statements are prepared in accordance with accounting principles generally accepted in France ("French GAAP"). U.S. generally accepted accounting principles ("U.S. GAAP") differ in certain significant respects from French GAAP applied by Euro Disney, principally as they relate to accounting for leases and the calculation of interest expense relating to debt affected by Euro Disney's financial restructuring. The Company records its pro rata equity share of Euro Disney's operating results calculated in accordance with U.S. GAAP.

Note 4: Film and Television Costs

	1996	1995
Theatrical Film Costs		
Released, less amortization	**$ 944**	$ 632
In-process	**1,947**	970
	2,891	1,602
Television Costs		
Released, less amortization	**303**	274
In-process	**168**	120
	471	394
Television Broadcast Rights	**550**	103
	$3,912	$2,099

Based on management's total gross revenue estimates as of September 30, 1996, approximately 89% of unamortized film and television costs (except in-process) are expected to be amortized during the next three years.

Note 5: Borrowings

	Effective Interest Rate	*Fiscal Year Maturity*	1996	1995
Commercial paper[a]	5.5%	1997	**$ 4,185**	$ —
U.S. dollar notes and debentures[b]	6.6	1998-2093	**4,399**	1,085
Dual currency and foreign notes[c]	5.4	1997-2000	**1,987**	363
Senior participating notes[d]	6.3	2000-2001	**1,099**	1,057
Other	5.6	1997-2013	**672**	479
	5.9%		**$12,342**	$2,984

[a] *In support of the issuance of commercial paper to fund the cash portion of the ABC purchase price (see Note 2), the Company established bank facilities in October 1995 totaling $12 billion. A portion of the commercial paper issued was subsequently refinanced into longer-term borrowings, and the bank facilities were refinanced to $7 billion. In October 1996, these facilities were further refinanced to $5 billion and expire in one to five years. Under the bank facilities, the Company has the option to borrow at various interest rates.*

[b] *Includes approximately $600 million of borrowings previously issued by ABC, Inc. and $300 million of borrowings due in 2093. The effective interest rate reflects the effect of interest rate swaps entered into with respect to certain of these borrowings.*

[c] *Denominated principally in U.S. dollars, Japanese yen, Australian dollars, and Italian lira. The effective interest rate reflects the effect of interest rate and cross-currency swaps entered into with respect to certain of these borrowings.*

[d] *The average coupon rate is 2.7% on $1.3 billion face value of notes. Additional interest may be paid based on the performance of designated portfolios of films.*

Borrowings, excluding commercial paper have the following scheduled maturities:

1997	$ 119
1998	752
1999	1,414
2000	918
2001	2,529

The Company capitalizes interest on assets constructed for its theme parks, resorts and other property, and on theatrical and television productions in process. In 1996, 1995 and 1994, respectively, total interest costs incurred were $545, $236 and $172 million, of which $66, $58 and $52 million were capitalized.

Note 6: Income Taxes

	1996	1995	1994
Income Before Income Taxes			
Domestic (including U.S. exports)	**$1,822**	$1,908	$1,514
Foreign subsidiaries	**239**	209	189
	$2,061	$2,117	$1,703
Income Tax Provision			
Current			
Federal	**$ 389**	$ 325	$ 117
State	**101**	68	30
Foreign (including withholding)	**235**	184	163
	725	577	310
Deferred			
Federal	**106**	170	260
State	**16**	(10)	23
	122	160	283
	$ 847	$ 737	$ 593

Components of Deferred Tax Assets and Liabilities	**1996**	*1995*
Deferred tax assets:		
Accrued liabilities	**$(1,863)**	$ (440)
Investment in Euro Disney	**(74)**	(153)
Other - net	**(20)**	(13)
Total deferred tax assets	**(1,957)**	(606)
Deferred tax liabilities:		
Depreciable, amortizable and other property	**2,193**	1,235
Licensing revenues	**203**	189
Leveraged leases	**254**	199
Total deferred tax liabilities	**2,650**	1,623
Net deferred tax liability before valuation allowance	**693**	1,017
Valuation allowance	**50**	50
Net deferred tax liability	**$ 743**	$1,067

Reconciliation of Effective Income Tax Rate	**1996**	*1995*	*1994*
Federal income tax rate	**35.0%**	35.0%	35.0%
Nondeductible amortization of intangible assets	**5.1**	–	–
State taxes, net of Federal income tax benefit	**3.7**	1.9	2.1
Other - net	**(2.7)**	(2.1)	(2.3)
	41.1%	34.8%	34.8%

In 1996 and 1995, income tax benefits of $44 and $90 million, respectively, were allocated to stockholders' equity. Such benefits were attributable to employee stock option transactions.

Note 7: Pension and Other Benefit Programs

The Company maintains pension plans and postretirement medical benefit plans covering most of its domestic employees not covered by union or industry-wide plans. Employees hired after January 1, 1994 are not eligible for the postretirement medical benefit plans. Pension benefits are generally based on years of service and/or compensation. The following summarizes the balance sheet impact, as well as the benefit obligations, assets, funded status and rate assumptions associated with the pension and postretirement medical benefit plans.

	Pension plans		*Postretirement benefit plans*	
	1996	*1995*	**1996**	*1995*
Reconciliation of funded status of the plans and the amounts included in the Company's consolidated balance sheet:				
Projected benefit obligations				
Beginning obligations	**$(604)**	$(476)	**$(162)**	$(182)
ABC's plans at acquisition	**(774)**	–	**(99)**	–
Service cost	**(68)**	(38)	**(12)**	(11)
Interest cost	**(81)**	(38)	**(16)**	(13)
Amendments	**–**	(5)	**–**	43
Gains or (losses)	**88**	(68)	**10**	(2)
Benefits paid	**37**	21	**8**	3
Ending obligations	**(1,402)**	(604)	**(271)**	(162)
Fair value of plans' assets				
Beginning fair value	**632**	485	**107**	78
ABC's plans at acquisition	**631**	–	**–**	–
Actual return on plans' assets	**149**	102	**20**	16
Contributions	**74**	72	**23**	16
Benefits paid	**(44)**	(27)	**(12)**	(3)
Ending fair value	**1,442**	632	**138**	107
Funded status of the plans	**40**	28	**(133)**	(55)
Unrecognized net (gain) loss	**(42)**	98	**(9)**	15
Unrecognized prior service benefit	**(2)**	(2)	**(75)**	(111)
Net balance sheet asset (liability)	**$ (4)**	$124	**$(217)**	$(151)
Rate assumptions				
Discount rate	**7.8%**	7.5%	**7.8%**	7.5%
Rate of return on plans' assets	**10.0%**	9.5%	**10.0%**	9.5%
Salary increases	**5.6%**	5.8%	**n/a**	n/a
Annual increase in cost of benefits	**n/a**	n/a	**7.0%**	7.0%

The annual increase in cost of postretirement benefits of 7% is assumed to decrease .3 ppts per year until stabilizing at 5.5%. An increase in the assumed benefits cost trend of 1 ppt for each year would increase the postretirement benefit obligation at September 30, 1996 by $55 million.

The Company's accumulated pension benefit obligation at September 30, 1996 was $1.2 billion, of which 98% was vested. The projected benefit obligation for the postretirement benefit plans at September 30, 1996 comprised 47% retirees, 18% fully eligible active participants and 35% other active participants.

The income statement cost of the pension plans for 1996, 1995 and 1994 totaled \$58, \$33 and \$37 million, respectively. The income statement cost (credit) for the postretirement benefit plans for the same years was \$(16), \$(43) and \$14 million, respectively. The discount rates and the salary increase rate were 8.5% and 6.3%, respectively, in 1994.

Note 8: Stockholders' Equity

(Shares in millions)	*Shares*	*Common Stock*	*Paid-in Capital*	*Retained Earnings*
Balance at September 30, 1993	565	\$14	\$ 862	\$4,833
Exercise of stock options, net	2	—	69	—
Dividends (\$.2875 per share)	—	—	—	(153)
Net income	—	—	—	1,110
Balance at September 30, 1994	567	14	931	5,790
Exercise of stock options, net	8	—	281	—
Dividends (\$.345 per share)	—	—	—	(180)
Net income	—	—	—	1,380
Balance at September 30, 1995	575	14	1,212	6,990
Acquisition impact (see Note 2)	104	(7)	7,213	—
Exercise of stock options, net	3	—	144	—
Dividends (\$.42 per share)	—	—	—	(271)
Net income	—	—	—	1,214
Balance at September 30, 1996	**682**	**\$7**	**\$8,569**	**\$7,933**

In November 1995, the Company adopted a stockholders' rights plan on substantially the same terms originally adopted by the Company in 1989. The plan becomes operative in certain events involving the acquisition of 25% or more of the Company's common stock by any person or group in a transaction not approved by the Company's Board of Directors. Upon the occurrence of such an event, each right, unless redeemed by the Board, entitles its holder to purchase for \$350 an amount of common stock of the Company, or in certain circumstances the acquirer, having a market value of twice the purchase price. In connection with the rights plan, 7 million shares of preferred stock were reserved. In connection with the acquisition of ABC, the Company's former stockholders' rights plan was canceled.

At September 30, 1996 and 1995, the Company's cumulative foreign currency translation adjustments and other amounts recorded directly to equity were \$39 and \$38 million, net of deferred taxes of \$16 and \$18 million, respectively.

The Company attempts to increase the long-term value of its shares by periodically acquiring its stock when it perceives that the market value is below an appropriate ratio of share price to historical earnings, projected earnings, or other relevant measures. Treasury stock activity for the three years ended September 30, 1996 was as follows:

(Shares in millions)	*Shares*	*Treasury Stock*
Balance at September 30, 1993	29	\$ 715
Common stock repurchased	14	571
Balance at September 30, 1994	43	1,286
Common stock repurchased, net	8	317
Balance at September 30, 1995	51	1,603
Cancellation of treasury stock (see Note 2)	(51)	(1,603)
Common stock repurchased	8	462
Balance at September 30, 1996	**8**	**\$ 462**

On April 22, 1996, the Company adopted a new share repurchase program. The program will allow the Company to purchase up to 105 million shares of its common stock from time to time in the open market or in privately negotiated transactions. In December 1996, the Company established a fund pursuant to the repurchase program to acquire shares of the Company for the purpose of funding certain stock-based compensation. Any shares acquired by the fund that are not utilized must be disposed of by December 31, 1999. Concurrent with the acquisition of ABC, the Company canceled its former share repurchase program.

Note 9: Stock Incentive Plans Under various plans, the Company may grant stock option and other awards to key executive, management and creative personnel. Transactions under the various stock option and incentive plans for the periods indicated were as follows:

(Shares in millions)	1996	1995	1994
Outstanding at beginning of year	**35**	39	36
Awards canceled	**(2)**	(4)	(1)
Awards granted	**21**	8	6
Awards exercised	**(3)**	(8)	(2)
Awards transferred (ABC)	**1**	—	—
Outstanding at September 30	**52**	35	39
Exercisable at September 30	**17**	15	17

Stock option awards are granted at prices equal to at least market price on the date of grant. Options outstanding at September 30, 1996 and 1995 ranged in price from $13.28 to $65.75 and $5.56 to $57.44 per share, respectively. Options exercised ranged in price from $5.56 to $57.44 per share in 1996, from $3.61 to $57.44 per share in 1995, and from $3.23 to $41.00 per share in 1994. Shares available for future option grants at September 30, 1996 were 60 million.

In October 1995, the Financial Accounting Standards Board issued SFAS 123, *Accounting for Stock-Based Compensation* ("SFAS 123") which is effective for the Company in fiscal 1997. As permitted under SFAS 123, the Company has elected not to adopt the fair value based method of accounting for its stock-based compensation plans, but will continue to account for such compensation under the provisions of APB Opinion No. 25 and, accordingly, the impact of SFAS 123 on the Company's financial statements is not expected to be material. The Company will comply with the disclosure requirements of SFAS 123 in 1997.

Note 10: Detail of Certain Balance Sheet Accounts

	1996	1995
Receivables		
Trade, net of allowances	**$2,875**	$1,593
Other	**468**	200
	$3,343	$1,793
Accounts Payable and Other Accrued Liabilities		
Accounts payable	**$5,515**	$2,131
Payroll and employee benefits	**757**	647
Other	**102**	65
	$6,374	$2,843
Intangible Assets		
Cost in excess of ABC's net assets acquired	**$16,079**	$ –
Trademark	**1,100**	–
FCC licenses	**1,100**	–
Accumulated amortization	**(301)**	–
	$17,978	$ –

Note 11: Segments

Business Segments	1996	1995	1994
Revenues			
Creative Content	**$10,095**	$ 7,736	$ 6,232
Broadcasting	**4,142**	414	359
Theme Parks and Resorts	**4,502**	4,001	3,499
	$18,739	$12,151	$10,090
Operating Income			
Creative Content	**$ 1,596**	$ 1,531	$ 1,205
Broadcasting	**747**	76	77
Theme Parks and Resorts	**990**	859	690
Accounting change	**(300)**	—	—
	$ 3,033	$ 2,466	$ 1,972
Capital Expenditures			
Creative Content	**$ 359**	$ 232	$ 149
Broadcasting	**113**	8	13
Theme Parks and Resorts	**1,196**	635	846
Corporate	**77**	21	18
	$ 1,745	$ 896	$ 1,026
Depreciation Expense			
Creative Content	**$ 163**	$ 107	$ 80
Broadcasting	**109**	8	7
Theme Parks and Resorts	**358**	335	289
Corporate	**47**	20	34
	$ 677	$ 470	$ 410
Identifiable Assets			
Creative Content	**$ 8,837**	$ 5,232	$ 4,066
Broadcasting	**20,256**	564	575
Theme Parks and Resorts	**7,066**	6,149	5,781
Corporate	**1,147**	2,661	2,404
	$37,306	$14,606	$12,826

Supplemental Revenue Data	**1996**	*1995*	*1994*
Creative Content			
Theatrical product	**$5,306**	$ 4,453	$ 3,734
Consumer products	**2,597**	2,120	1,798
Newspapers, technical and specialty publications	**805**	–	–
Broadcasting			
Advertising	**3,092**	98	90
Theme Parks and Resorts			
Admissions	**1,493**	1,346	1,180
Merchandise, food and beverage	**1,555**	1,424	1,238
Geographic Segments			
Domestic Revenues			
United States	**$14,422**	$ 8,876	$ 7,544
United States export	**746**	608	480
International Revenues			
Europe	**2,086**	1,677	1,345
Rest of World	**1,485**	990	721
	$18,739	$12,151	$10,090
Operating Income			
United States	**$ 2,113**	$ 1,665	$ 1,345
Europe	**953**	486	405
Rest of World	**178**	402	280
Unallocated expenses	**(211)**	(87)	(58)
	$ 3,033	$ 2,466	$ 1,972
Identifiable Assets			
United States	**$35,442**	$13,438	$11,306
Europe	**1,495**	1,060	1,238
Rest of World	**369**	108	282
	$37,306	$14,606	$12,826

During the second quarter of the current year, the Company implemented SFAS 121. This new accounting standard changes the method that companies use to evaluate the carrying value of such assets by, among other things, requiring companies to evaluate assets at the lowest level at which identifiable cash flows can be determined. The implementation of SFAS 121 resulted in the Company recognizing a $300 million non-cash charge related principally to certain assets included in the Theme Parks and Resorts segment.

Note 12: Financial Instruments

Investments

As of September 30, 1996, the Company held $41 million of securities classified as available-for-sale. As of September 30, 1995, the Company held $96 million of securities classified as trading and $403 and $307 million of securities and cash equivalents, respectively, classified as available-for-sale. In 1996 and 1995, realized gains and losses on available-for-sale securities, determined principally on an average cost basis, and unrealized gains and losses on available-for-sale securities were not material. In 1995, the change in the net unrealized gain on trading securities was not material.

Financial Risk Management

The Company is exposed to the impact of interest rate changes. The Company's objective is to manage the impact of interest rate changes on earnings and cash flows and on the market value of its investments and borrowings. The Company maintains fixed rate debt as a percentage of its net debt between a minimum and maximum percentage, which is set by policy.

The Company transacts business in virtually every part of the world and is subject to risks associated with changing foreign exchange rates. The Company's objective is to reduce earnings and cash flow volatility associated with foreign exchange rate changes to allow management to focus its attention on its core business issues and challenges. Accordingly, the Company enters into various contracts which change in value as foreign exchange rates change to protect the value of its existing foreign currency assets and liabilities, commitments and anticipated foreign currency revenues. By policy, the Company maintains hedge coverage between minimum and maximum percentages of its anticipated foreign exchange exposures for each of the next five years. The gains and losses on these contracts offset changes in the value of the related exposures.

It is the Company's policy to enter into foreign currency and interest rate transactions only to the extent considered necessary to meet its objectives as stated above. The Company does not enter into foreign currency or interest rate transactions for speculative purposes.

Interest Rate Risk Management

The Company uses interest rate swaps and other instruments to manage net exposure to interest rate changes related to its portfolio of borrowings and investments and to lower its overall borrowing costs. Significant interest rate risk management instruments held by the Company at September 30, 1996 and 1995 are described below.

Interest Rate Risk Management - Borrowings

At September 30, 1996, the Company had outstanding interest rate swaps on its borrowings with notional amounts totaling $900 million, which effectively converted floating rate commercial paper to fixed rate instruments. At September 30, 1996 and 1995, the Company had outstanding interest rate swaps on its borrowings with notional amounts totaling $1,520 and $685 million, respectively, which effectively converted medium-term notes to commercial paper or LIBOR-based variable rate instruments. These swap agreements expire in two to 15 years.

Interest Rate Risk Management - Investment Transactions

At September 30, 1995, the Company had outstanding $154 million notional amount of interest rate swaps designated as hedges of investments, and $225 million of options, futures and forward contracts. These swaps and contracts were terminated during 1996 and the realized gains and losses are included in earnings.

Interest Rate Risk Management - Summary of Transactions

The following table reflects incremental changes in the notional or contractual amounts of the Company's interest rate contracts during 1996 and 1995. Activity representing renewal of existing positions is excluded.

	Balance at September 30, 1995	Additions	Maturities/ Expirations	Terminations	**Balance at September 30, 1996**
Pay floating swaps	$ 719	$1,195	$(115)	$ (279)	**$1,520**
Pay fixed swaps	4,680	1,460	—	(5,240)	**900**
Forward contracts	—	93	(93)	—	**—**
Futures contracts	123	6	—	(129)	**—**
Option contracts	102	12	(40)	(74)	**—**
	$5,624	$2,766	$(248)	$(5,722)	**$2,420**

	Balance at September 30, 1994	Additions	Maturities/ Expirations	Terminations	Balance at September 30, 1995
Pay floating swaps	$1,037	$ 984	$ (135)	$(1,167)	$ 719
Pay fixed swaps	214	4,606	—	(140)	4,680
Spreadlock contracts	250	—	(250)	—	—
Forward contracts	101	294	(395)	—	—
Futures contracts	266	289	(239)	(193)	123
Option contracts	94	239	(190)	(41)	102
	$1,962	$6,412	$(1,209)	$(1,541)	$5,624

The impact of interest rate risk management activities on income in 1996 and 1995 and the amount of deferred gains and losses from interest rate risk management transactions at September 30, 1996 and 1995 were not material.

Foreign Exchange Risk Management

The Company primarily uses option strategies which provide for the sale of foreign currencies to hedge probable, but not firmly committed, revenues. While these hedging instruments are subject to fluctuations in value, such fluctuations are offset by changes in the value of the underlying exposures being hedged. The principal currencies hedged are the Japanese yen, French franc, German mark, British pound, Canadian dollar, Italian lira and Spanish peseta.

Foreign Exchange Risk Management Transactions

The Company uses option contracts to hedge anticipated foreign currency revenues. The Company also uses forward contracts to hedge foreign currency assets, liabilities and foreign currency payments the Company is committed to make in connection with the construction of two cruise ships (see Note 13). Cross-currency swaps are used to hedge foreign currency-denominated borrowings.

At September 30, 1996 and 1995, the notional amounts of the Company's foreign exchange risk management contracts, net of notional amounts of contracts with counterparties against which the Company has a legal right of offset, the related exposures hedged and the contract maturities are as follows:

	1996		
	Notional Amount	**Exposures Hedged**	**Fiscal Year Maturity**
Option contracts	**$5,563**	**$3,386**	**1997–1999**
Forward contracts	**1,981**	**1,174**	**1997–1999**
Cross-currency swaps	**2,308**	**2,536**	**1997–2001**
	$9,852	**$7,096**	

	1995		
	Notional Amount	*Exposures Hedged*	*Fiscal Year Maturity*
Option contracts	$5,070	$2,869	1996–1999
Forward contracts	1,940	1,196	1996–1999
Cross-currency swaps	350	350	1997–1998
	$7,360	$4,415	

Gains and losses on contracts hedging anticipated foreign currency revenues and foreign currency commitments are deferred until such revenues are recognized or such commitments are met, and offset changes in the value of the foreign currency revenues and commitments. At September 30, 1996 and 1995, the Company had net deferred gains of $28 million and net deferred losses of $189 million, respectively, related to foreign currency hedge transactions, which will be recognized in income over the next three years. Amounts recognizable in any one year are not material and will be substantially offset by gains and losses in the value of the related hedged transactions.

The impact of foreign exchange risk management activities on income in 1996 and 1995 was not material.

Fair Value of Financial Instruments

At September 30, 1996 and 1995, the Company's financial instruments included cash, cash equivalents, investments, receivables, accounts payable, borrowings and interest rate and foreign exchange risk management contracts.

At September 30, 1996 and 1995, the fair values of cash and cash equivalents, receivables, accounts payable, commercial paper and securities sold under agreements to repurchase approximated carrying values because of the short-term nature of these instruments. The estimated fair values of other financial instruments subject to fair value disclosures, determined based on broker quotes or quoted market prices or rates for the same or similar instruments, and the related carrying amounts are as follows:

	1996		*1995*	
	Carrying Amount	**Fair Value**	*Carrying Amount*	*Fair Value*
Investments	**$ 41**	**$ 41**	$ 499	$ 499
Borrowings	**(12,342)**	**(12,270)**	(2,984)	(3,151)
Risk management contracts	**466**	**460**	181	137
	$(11,835)	**$(11,769)**	$(2,304)	$(2,515)

Credit Concentrations

The Company continually monitors its positions with, and the credit quality of, the financial institutions which are counterparties to its financial instruments and does not anticipate nonperformance by the counterparties. The Company would not realize a material loss as of September 30, 1996 in the event of nonperformance by any one counterparty. The Company enters into transactions only with financial institution counterparties which have a credit rating of A- or better. The Company's current policy in agreements with financial institution counterparties is generally to require collateral in the event credit ratings fall below A- or in the event aggregate exposures exceed limits as defined by contract. In addition, the Company limits the amount of credit exposure with any one institution. At September 30, 1996, financial institution counterparties posted collateral of $201 million to the Company, and the Company was not required to collateralize its financial instrument obligations.

The Company's trade receivables and investments do not represent significant concentrations of credit risk at September 30, 1996, due to the wide variety of customers and markets into which the Company's products are sold, their dispersion across many geographic areas, and the diversification of the Company's portfolio among instruments and issuers.

Note 13: Commitments and Contingencies

The Company, together with, in some instances, certain of its directors and officers, is a defendant or co-defendant in various legal actions involving copyright, breach of contract and various other claims incident to the conduct of its businesses. Management does not expect the Company to suffer any material liability by reason of such actions, nor does it expect that such actions will have a material effect on the Company's liquidity or operating results.

During 1995, the Company entered into agreements with a shipyard to build two cruise ships for its Disney Cruise Line. Under the agreements, the Company is committed to make payments totaling approximately $700 million through 1999.

At September 30, 1996, the Company is committed to the purchase of broadcast rights for various feature films, sports and other programming aggregating approximately $4.5 billion. This amount is substantially payable over the next five years.

Quarterly Financial Summary

(In millions, except per share data)

(Unaudited)	*December 31*	*March 31*	*June 30*	*September 30*
1996				
Revenues	$3,837	$4,543	$5,087	$5,272
Operating income	863	356	956	858
Net income (loss)	497	(25)	406	336
Earnings (loss) per share	.93	(.04)	.59	.49
Dividends per share	.09	.11	.11	.11
Market price per share				
High	62 7/8	69 3/4	65 5/8	63 5/8
Low	55 3/8	59 1/2	58 1/4	53 5/8
1995				
Revenues	$3,303	$2,951	$2,773	$3,124
Operating income	787	608	574	497
Net income	482	315	318	265
Earnings per share	.91	.60	.60	.50
Dividends per share	.075	.090	.090	.090
Market price per share				
High	46 7/8	56 1/4	60	62 3/4
Low	37 3/4	45	52 7/8	50 1/2

Selected Financial Data

(In millions, except per share and other data)

	1996	1995	1994	1993	1992
Statements of Income					
Revenues	**$18,739**	$12,151	$10,090	$8,531	$7,504
Operating income	**3,033**	2,466	1,972	1,722	1,435
Income before cumulative effect of accounting changes	**1,214**	1,380	1,110	671	817
Cumulative effect of accounting changes	**–**	–	–	(371)	–
Net income	**1,214**	1,380	1,110	300	817
Per Share					
Earnings before cumulative effect of accounting changes	**$1.96**	$2.60	$2.04	$1.23	$1.52
Cumulative effect of accounting changes	**–**	–	–	(.68)	–
Earnings	**1.96**	2.60	2.04	.55	1.52
Dividends	**.42**	.35	.29	.24	.20
Balance Sheets					
Total assets	**$37,306**	$14,606	$12,826	$11,751	$10,862
Borrowings	**12,342**	2,984	2,937	2,386	2,222
Stockholders' equity	**16,086**	6,651	5,508	5,031	4,705
Statements of Cash Flow					
Cash flow from operations	**$4,625**	$3,510	$2,808	$2,145	$1,838
Investing activities	**(13,464)**	(2,288)	(2,887)	(2,660)	(1,924)
Financing activities	**8,040**	(332)	(97)	113	(36)
Other					
Stockholders at year end	**564,000**	508,000	459,000	408,000	310,000
Employees at year end	**100,000**	71,000	65,000	62,000	58,000

Management's Responsibility for Financial Statements

Management is responsible for the preparation of the Company's consolidated financial statements and related information appearing in this annual report. Management believes that the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements reasonably present the Company's financial position and results of operations in conformity with generally accepted accounting principles. Management also has included in the Company's financial statements amounts that are based on estimates and judgments which it believes are reasonable under the circumstances.

The independent accountants audit the Company's consolidated financial statements in accordance with generally accepted auditing standards and provide an objective, independent review of the fairness of reported operating results and financial position.

The Board of Directors of the Company has an Audit Review Committee composed of four non-management Directors. The Committee meets periodically with financial management, the internal auditors and the independent accountants to review accounting, control, auditing and financial reporting matters.

Report of Independent Accountants

To the Board of Directors and Stockholders of
The Walt Disney Company

In our opinion, the consolidated balance sheets (page 61) and the related consolidated statements of income (page 60) and of cash flows (page 62) present fairly, in all material respects, the financial position of The Walt Disney Company and its subsidiaries (the "Company") at September 30, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1996, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Note 1 to the consolidated financial statements, the Company adopted the provisions of the Financial Accounting Standard Board's Statement of Financial Accounting Standards 121,"Accounting for the Impairmant of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," in fiscal 1996.

Price Waterhouse LLP

Los Angeles, California
November 25, 1996

Supplemental Information

Stock Exchanges

The Common Stock of the company is listed for trading on the New York (principal market) and Pacific Stock Exchanges. Certain debt securities of the company are listed on the Luxembourg and Swiss Stock Exchanges.

Registrar and Stock Transfer Agent

The Walt Disney Company
611 N. Brand Boulevard, Suite 6100
Glendale, California 91203
(818) 553-7200

Independent Accountants

Price Waterhouse LLP, Los Angeles

Other Information

A copy of the company's annual report to the Securities and Exchange Commission (Form 10-K) will be furnished without charge to any stockholder upon written request.

A copy of the company's quarterly reports will be furnished without charge to any stockholder upon written or telephone request.

All written requests should be sent to Shareholder Services, The Walt Disney Company, 500 South Buena Vista Street, Burbank, California 91521-9722. Telephone requests can be made to (818) 553-7200.

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Complimentary Passport

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• Not For Sale •

**THIS PASSPORT ALLOWS YOU
USE OF THE FOLLOWING FOR ONE DAY:**

- Admission and use of attractions (excluding Arcades) at DISNEYLAND® Park.
- In Florida, please exchange this pass at any Main Entrance ticket booth at the MAGIC KINGDOM® Park, Epcot® and Disney-MGM Studios to receive a 1- Day Complimentary ticket which allows you to park hop between the three Florida parks listed above.
- Transportation between the MAGIC KINGDOM® Park, the Transportation and Ticket Center, Epcot® and Disney-MGM Studios (Florida).

**Not valid for special ticket events.
Children under 7 years must be accompanied by an adult.**

If you are leaving and plan to return or visit any of these Theme Parks on the same day, please have your hand stamped as you exit. Present this Passport or your exchanged park hopper ticket and show your ticket and hand-stamp as you reenter at the reentry turnstile.

This Passport (or your exchanged park hopper ticket) will ONLY be accepted during regular Park operating hours. Park hours are subject to change without notice and may close temporarily due to capacity, inclement weather or special events; attractions in parks may be closed temporarily due to refurbishing.

These Parks include a vast array of rides and attractions, and each guest assumes the inherent risks associated with the normal operation of such rides and attractions. Read and heed all safety signage and instructions. Entry into these Parks constitutes consent to use any film, video or likeness of bearer for any purpose whatsoever without any payment to bearer.

NOT RESPONSIBLE FOR LOST OR STOLEN PROPERTY

Nontransferable — Nonrefundable

THIS PASSPORT VALID THROUGH JUNE 1, 1997

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